★ MARKET SEEKING REALISTIC LEVELS ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

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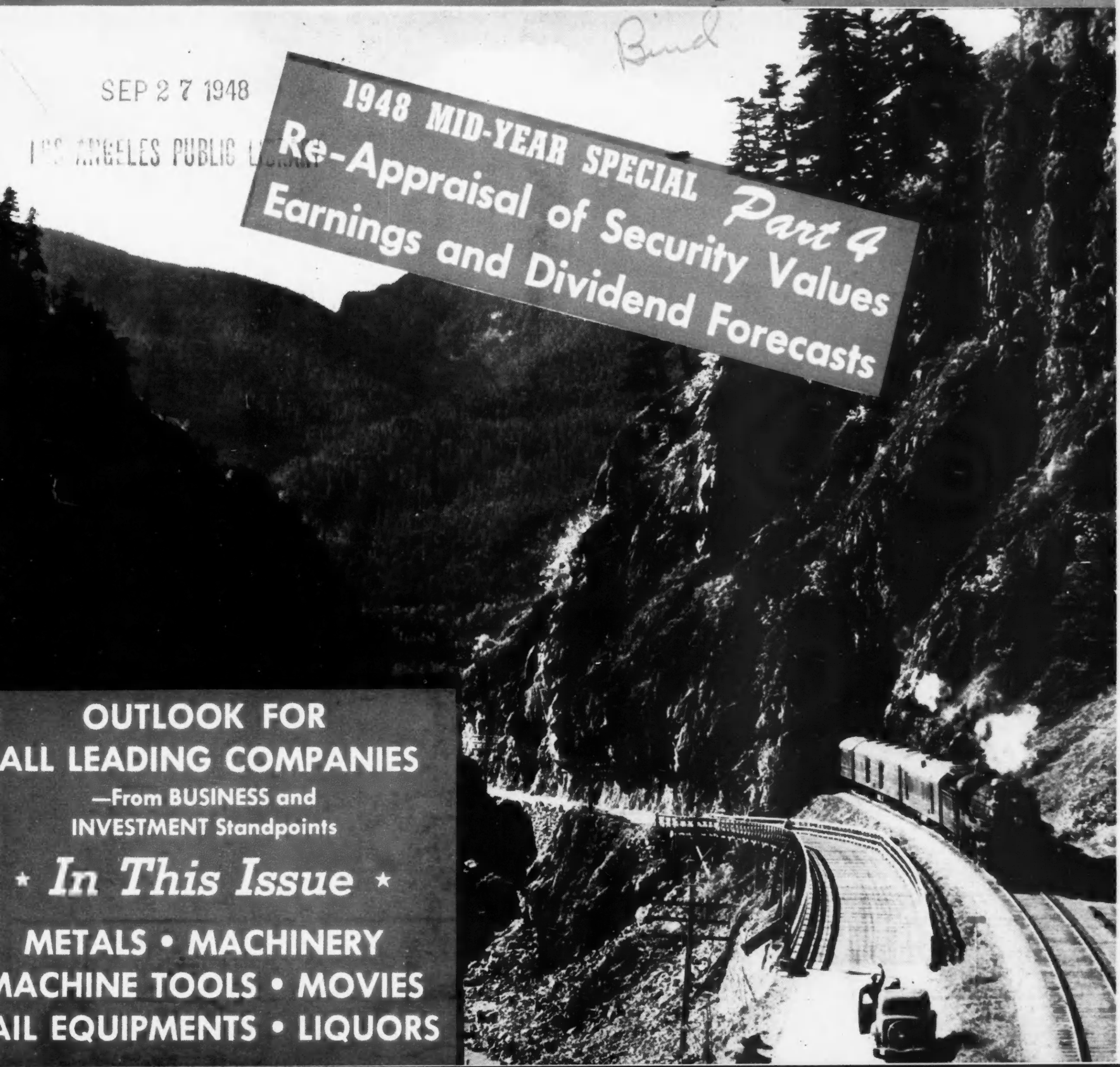

1948 MID-YEAR SPECIAL *Part 4*
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Earnings and Dividend Forecasts

OUTLOOK FOR ALL LEADING COMPANIES
—From BUSINESS and INVESTMENT Standpoints

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CONTENTS

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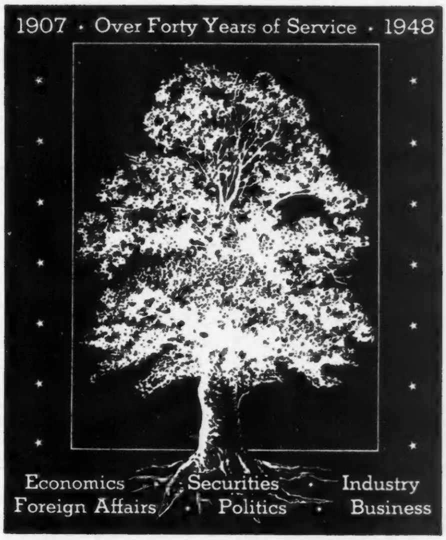
LARGE NEW OIL INVESTMENTS ABROAD

Photo by Standard Oil (N. J.)

American investment dollars are once more flowing overseas in mounting volume, much of it for the development of new oil resources. Millions in recent years were spent for pipelines and oil field equipment, for refineries and tankers, for drilling operations in distant countries as pictured above. The article on page 623 tells you about the significance of our growing investments abroad, new postwar trends and potential impacts on our foreign and domestic business.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

SETTING THE TUNE . . . President Truman's Labor Day message addressed to the electorate, not to Congress, set the tune for his campaign. It was, perhaps appropriately enough, about labor, to labor and for labor.

What strikes us particularly is not so much his open bid for the labor vote. This is natural in a campaign year, and indulged in by both parties. It is even less surprising in the light of the President's, and his party's, traditional pro-labor attitude. More interesting are the signs that this time the democratic party may have to fight for union votes, and this holds its own somber implications.

At the time the President held his Labor Day speech, the nation was beset by serious strikes. One of truck drivers in New York and New Jersey that threatened the flow of food to the City of New York and distribution within it. Another of maritime workers on the Pacific Coast that interrupted international and coastwise shipping, an interruption aggravated on the highest level by the need of the Government to ship military supplies to Japan and elsewhere. A third, a strike of oil workers in California, reduced distribution of gasoline to a point of apprehension of serious shortages and subsequently led to pitched battles between police and pickets. All these strikes are still going on, threatening public or semi-public functions and the welfare of the population. On the West Coast, particularly, Mr. Bridges is still unabridged, with the situation rapidly drifting towards a national emergency.

This twin-characteristic of the past Labor Day is far from new. For the last fifteen years, increased privileges and power have been consistently conferred on labor unions, through legislation, court decisions or administrative actions. Yet this deference to labor has brought labor peace not any nearer. If anything, it is farther away than ever.

And again, the President in his Labor Day message comes out for extension of the power of labor, denounces restrictions imposed on it by the Taft-Hartley law, promises a "new and sounder program of labor relations." He offers no comment, let alone a warning against the patent abuses of power of which organized labor has been guilty, or the threat to the public welfare embodied in the very strike actions that made newspaper headlines the very same day.

Hence it is well to recall that it is the Government's obligation to protect the nation from the consequences of strikes and walkouts, where public health and welfare, and even public policy, is endangered. This obligation exists even in a campaign year. Instead, however, appeasement seems to be the word. The strikes we mentioned are continuing, posing new and serious problems not only to a strike-weary populace but to the U. S. Government itself.

TAXES AND SAVINGS . . . Ex-President Herbert Hoover in a recent statement warned that the present tax burdens are so great and such a drain on the economy that they seriously "curtail the whole economic and social advance of the United States."

"We have not socialized industry," Mr. Hoover told members of the National Press Club, "but we have come close to socializing savings into the government." The tax burden is so heavy, he explained, that we are drawing fundamental savings into the Treasury. We saw evidences of this last year in the large amounts of long term capital borrowed from banks instead of investors, a process that cannot go on for long.

All of which is only too true. Yet strangely, few

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty Years of Service"*—1948

people realize the extremely grave long term consequences of a continuous heavy tax drain on the people and on the economy as a whole, the inexorable lowering of our standard of living, the threat to our middle class, the radicalization of large segments of our population, the mounting social problems.

Some may contend that regrettable as it is, there is nothing that can be done about it, that taxes must stay high to cover government expenditures currently about ten times normal prewar requirements (prior to the New Deal). Yet a good deal can be done, chiefly by instituting every possible saving in the Government. There is still a lot of wasteful spending going on, of the kind that should and could de dispensed with forthwith. Government payrolls are still enormously padded with unproductive workers. Some Government agencies (you can now borrow from no less than 26 of them) are entirely too free with the public's money. And some, like the AAA, have the taxpayer-consumer over a double barrel.

Never was there more need for thrift in government, yet hardly ever was there more waste. It's time to stop it!

WHERE TO START . . . A good starter would be to halt wasting the taxpayers' money on unrealistic farm price support programs. Their cost is likely to soar tremendously in the wake of this year's bumper crops. Indignation of hard-pressed taxpayers and consumers over the impact, and likely consequences, of unjustifiedly high price support levels is assuming serious proportions, yet being largely unorganized politically, their voices do not carry too far, nor too much weight, in spite of the approaching election. The farm bloc is more powerful, easier to deal with, more compact.

Thus we are not surprised to hear predictions that price support commitments (at 90% of parity) to the farmers will not be altered for next year's crops, despite all the hullabaloo. It's too late to do much, the politicians say. Besides, they dislike to renege on their promises.

The Government will be forced to spend anywhere from $1½ billion to $3 billion for crop support operations on this year's crops alone. Not only that, the Agriculture Department is constantly devising ways and means of facilitating crop loans. Thus the 1948 cotton loan program was recently amended to permit loans on farm-stored cotton. Heretofore loans were only made on cotton stored in approved warehouses. In the words of the Agriculture Department, the change was made "to make loans more readily available to producers in those areas where there is a shortage of warehouse space."

Cotton dealers predict that nearly six million bales of the 1948 cotton crop will be lodged with the Government under the loan program, largest amount since 1937. At average loan rates of close to 31c a pound, it will cost a pretty penny. It will also keep cotton prices high, and therefore the prices of clothing, apparel and other cotton goods which the consumer already finds hard to buy at today's price tags.

An excellent chance to economize exists right here. It also would mean a break for the consumer, who usually is a taxpayer as well. Too bad that he forgets so often that he is also a voter!

He should think more of it, particularly when he is now being told that he may face rising food prices in the face of plentiful farm crops. So much of it is going into Government loans that there actually may be a shortage of available supplies on the market. As one wag recently put it: The old law of demand and supply seems to have taken a strange twist — those who supply these days do also the demanding!

FOOD FOR THOUGHT . . . Bringing to reality a century-old dream of the steel industry, the Republic Steel Corporation and Babcock & Wilcox have recently announced the development of a continuous steel casting method that will revolutionize steel making. With it, steel can be cast in one step rather than many expensive ones, from the liquid phase to semi-finished shapes. The greatest single advantage is that it removes from the conventional production method the most massive and expensive parts of steel plants. The new process requires a plant that is dwarfed by the conventional establishment. And by removing intermediate steps which have accounted for an important part of the total investment required in steel making, it permits a sharp cut in capital requirements and a corresponding reduction in labor, affording savings of at least $3 a ton in the production of steel. The new process will increase productivity by a substantial margin, and permit the decentralization of the steel industry, heretofore held hardly feasible because of the huge and expensive equipment involved.

The new development is particularly significant and timely in view of the rise in unit costs, of wage rates, of the growth of featherbedding among labor organizations, the steep boost in the cost of transportation — all of which have combined to raise break-even points in the steel industry (and elsewhere) to dangerously high levels. The means of cutting costs through the new process thus comes at a particularly appropriate time.

However, aside from its practical and financial aspects, this development provokes other reflections. While Republic Steel Corporation has experimented on it for about six years, steel engineers and metallurgists have been looking for such a simplified method for over a century. Final success was the end-result of a long and patient process of trial and error, the work of a large number of persevering individuals and the result of great capital outlay for many years without direct reward.

We doubt whether under any other than the much abused capitalistic system, such unflagging and costly pursuit of an idea, accompanied as it was by frequent failures, would have been possible. But we have no doubt that once successful, the workings and compelling relationships of the capitalistic system will make the widest diffusion of the resultant benefits an absolute necessity.

In short, it is an interesting case study in capitalism (and there are many of them, of course) that should give food for thought to all those who mistakenly believe that the socialist or communist pastures look greener. Under neither of these systems, we think, would such progress, that benefits all mankind, have been possible.

As I See It!

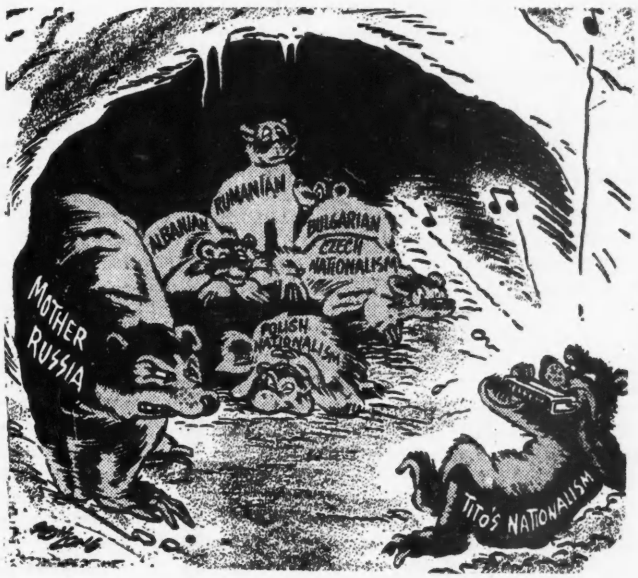
BY ROBERT GUISE

NO RETREAT!

As this is written, the Moscow negotiations have not yet been broken off, but there is no visible reason why they should not be. Obviously an agreement acceptable to the western powers, and to the cause of peace, cannot be had for the simple reason that the Kremlin doesn't want one. That much has been made clear by the fruitless and dragged out talks in Berlin between commanders of the occupation zones, and even more so by by the Russian - inspired actions in that city. Russian willingness to negotiate in itself has been mocked by every fresh provocation.

While the western envoys in Moscow were striving for an acceptable settlement, the Berlin crisis has deepened by deliberate Russian design. No more evidence is needed to make it plain that there can be no constructive meeting of the minds. Worse yet, whatever agreement we might sign with the Soviets, we may be sure that they will renege on it again whenever it suits their purpose. It won't be worth the paper it is written on.

"A CUB WHO DOESN'T WANT TO HIBERNATE"



Long in The Minneapolis Tribune

Even if a temporary breathing spell were secured, the Russians would still want to push us out of Berlin, and ultimately out of Germany and Europe in furtherance of their aim of world communism. To even the superficial observer it must now be obvious that the negotiations in Moscow are a delusion and a snare dragged out by the Kremlin to gain time. Anything remotely resembling a practical solution is not in sight. And anything short of a solution acceptable to the western powers should not be approved by us. The time for make-shift and appeasement is passed. If there can be no settlement of the differences, there can and must be no retreat!

Fortunately in the West there are evidences of grim readiness to face the consequences of a breakdown of the latest painful attempt to restore reason and peace to a world in urgent need of both. Our air lift to Berlin is being stepped up. Concentration of aerial power in England and elsewhere has been reported in the press. Britain has shown herself ready to do her part by the dramatic announcement that she will double the production of fighter planes. No comment on the Moscow talks could be more eloquent. The stage is being set for a showdown in the face of stubborn Russian intransigeance. The cold war is heating up!

Our determination to face a showdown has probably been strengthened by indications that Russia's game still consists largely of bluff. We now appear ready, and should be ready, to call her bluff. Every time the western powers during the Moscow negotiations were about to withdraw in disgust, the Kremlin offered just enough bait to warrant a continuation. Persistently the Soviets have been working for time in the belief that time will be on their side. That is true enough; all the more reason why we should be determined to retreat no further. More appeasement now will only make harder the task that inevitably will face us later. If the West acts with vigor and speaks with candor, Russian policy will be stripped of the last pretense and the Soviets will have no recourse but to submit to, or brazenly defy, the judgment of the world.

Dragging out the Berlin crisis, or otherwise shutting our eyes to the Kremlin's shameful game for world disorder will not only gravely react against our prestige and our interests; it would give the Russians a chance to strengthen their position for the inevitable showdown at a later date. It would give them an opportunity (which they obviously want and need) to strengthen their grip on the hapless peoples now unwillingly under their control, to digest and consolidate their ill-gotten gains by transforming their satellite nations into mere Russian provinces.

This would be a severe blow to the western cause, but the opportunity to prevent it exists if we act fast and firmly. Soviet policies have consistently driven their puppets into highly disagreeable courses of action, hence their tendency to rebel as in the case of Tito in Yugoslavia, of Gomulka in Poland, of the widespread resistance in Czechoslovakia indicates. Such (*Please turn to page* 662)

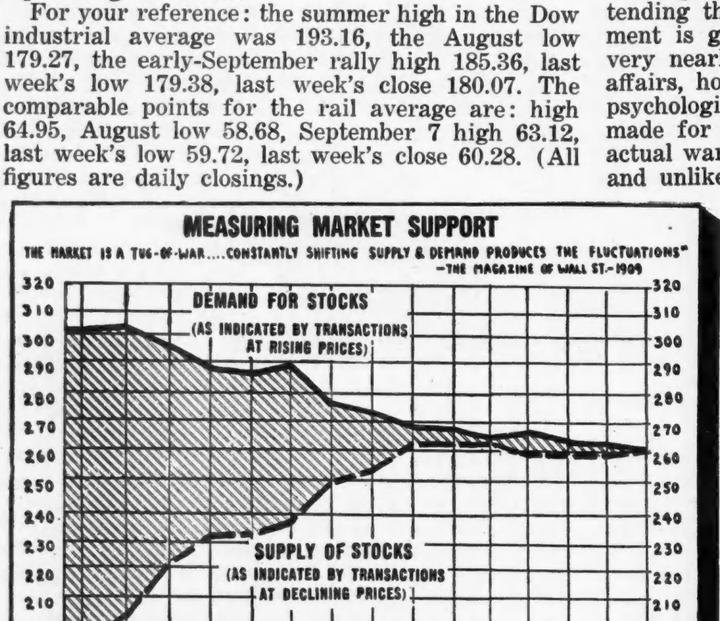
Market Seeking Realistic Levels

The market may have substantially allowed for everything in the unsatisfactory foreign situation, short of actual war. Hence, a trading rally is possible, since domestic business remains at high levels. But there are growing, and valid, doubts about economic potentials beyond the medium-term. Our market policy remains highly cautious.

By A. T. MILLER

The market lost ground during the past fortnight, cancelling nearly all the gain made on the minor rally which had run from late August to just beyond Labor Day. Traders may derive some encouragement from the fact that the August lows — technically significant as the bottoms to date in the general downtrend from the summer recovery highs — have not yet been broken; and from the further fact that the volume of transactions on the latest sell-off was too light to suggest a general liquidating movement.

For your reference: the summer high in the Dow industrial average was 193.16, the August low 179.27, the early-September rally high 185.36, last week's low 179.38, last week's close 180.07. The comparable points for the rail average are: high 64.95, August low 58.68, September 7 high 63.12, last week's low 59.72, last week's close 60.28. (All figures are daily closings.)



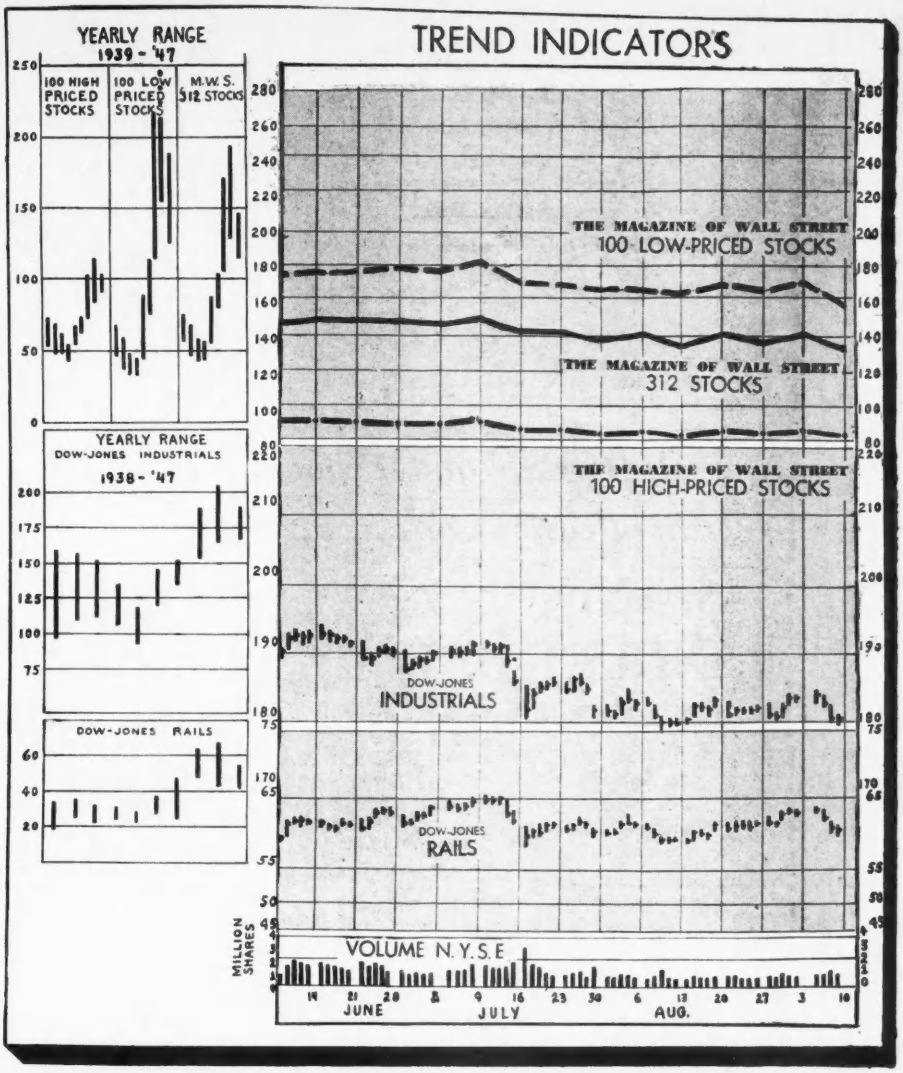
As emphasized by the Support Indicator chart on this page, interest in both the buying side of the market and the selling side is currently low, and the balance between them is very narrow. The best possibility that we can see for the near-term is a rally, of no great proportions, induced mainly by the hit-and-run operations of Stock Exchange floor traders. The technical position at the moment may be fairly strong. Offerings from the general investing public are insignificant. The market has been backing and filling for about five weeks without extending the late-summer decline. Prevailing sentiment is generally cautious, aggressive bullishness very nearly non-existent. With respect to foreign affairs, hopes are very low; and it might be that psychological preparation has been substantially made for anything in the foreign news excepting actual war. With domestic business at a high level, and unlikely to become importantly worse for at least the rest of this year, the considerations cited could well defer a decisive downside market test for an indeterminate period, and meanwhile yield a rally sufficient at least to relieve at least the current monotony.

Buyers Will Remain Cautious

On anything beyond a relatively short-term view, we remain convinced that there is more risk than promise in purchases for appreciation. We believe there is more potentiality for decline in the market than for advance, even though there is scant basis for conviction on either timing or the approximate scope of movement when potentiality becomes actuality. Those who disagree cite the high level of business, earnings and dividends as justification for higher average stock prices. But the market has had this bullish ammunition to feed on for a very long time, and it loses, rather than gains, in psychological potency as the months pass. It has at no time been enough to generate a sustained advance, even when the tension in the foreign situation was considerably less than it is now. The evidence ever since the summer of 1946 makes it conclusive that the inflationary postwar

boom cannot be accepted as foundation for a genuine bull market.

From the start of this boom thinking investors have worried about its ultimate deflationary end, and put an unusually low valuation on prevailing earnings. The continuation of the boom merely proves those worries to have been premature, not unfounded. The market never gets away from apprehension about "the coming recession" — practically everybody expects it — for very long. It has been temporarily put out of mind on several good trading-range recoveries over the past two years or so, only to recur in due time.



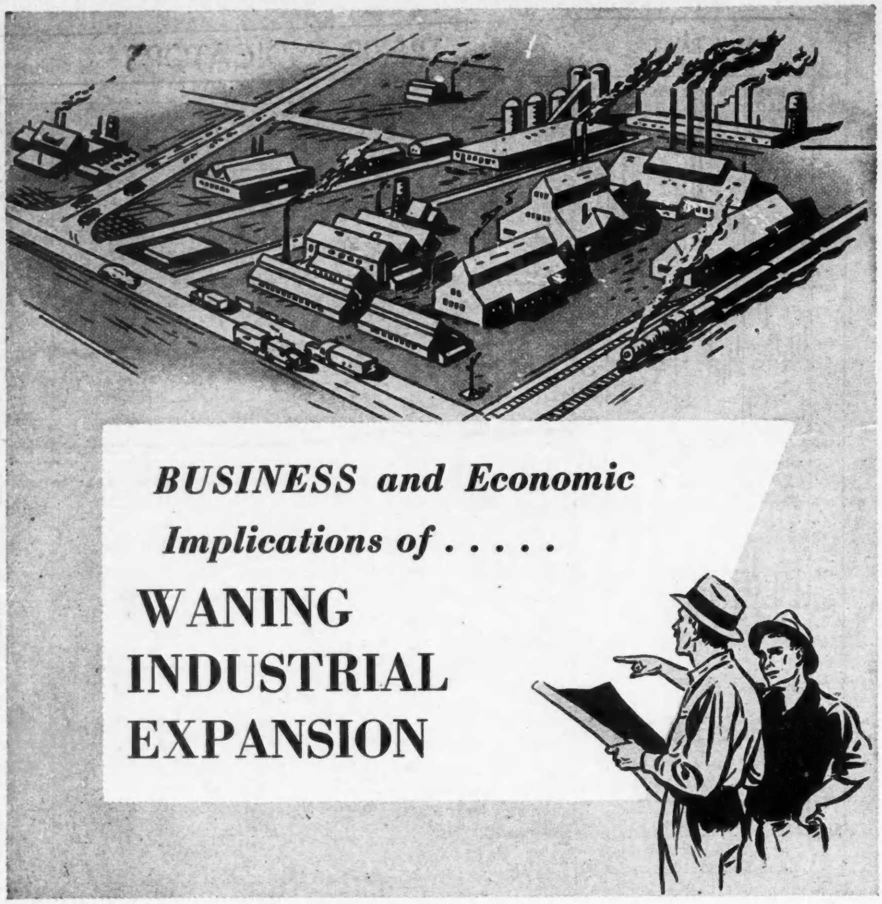
At the present time there is a general feeling of uncertainty about 1949 business: a tendency to question, or doubt, that the boom will continue for more than a few months of of the new year at best. There was similar uncertainty about 1948 in the late summer of 1947, following a three-month intermediate recovery in the market. The result was a protracted zig-zag downward trend in the market, which finally took the industrial average down to about 165 in March of this year, or very close to the 1946-1947 lows. Then several things happened to convince people that fear had gone too far, too soon. There was the European Recovery Program, the income tax cut and announcement of the armament program. The market then had another three-month recovery, lifting the industrial average 17%, fooling Dow-Theory buyers into thinking it was "the real thing."

Now it is possible that business fears are still premature; but it is improbable that there can be an investment revulsion from them for a good many months at best; for doubt about 1949 business cannot be resolved by anything in the business statistics for the rest of this year, no matter how good they might be. On the other hand, the doubts could be increased by even minor indications of weakening business. So far as we can see, it is not possible to look forward to any psychological stimulant remotely comparable to the unusual series of "shots in the arm" early this year — the tax cut, ECA and arms program heretofore cited. We rule out the election as a stimulant of any importance for two reasons. First, the result is a foregone conclusion, already allowed for in investment thinking. Second, a shift in Administration will not assure continuation of the boom in itself.

The market as a whole now stands a little above the half-way point in its 1948 range to date, which in terms of the industrial average is roughly 193-165. Three times since the summer of 1946 it has sold down to the 163-165 level on uncertainty and premature fears. On the reasoning which we have cited, the chances are better than even that these old lows will again be tested, in almost any event; perhaps within the rest of this year, hardly later than early in 1949. We think that this will be so regardless of whether the surface business indications — production, employment, national income payments — remain as they are now.

Conservative Policy Justified

However, the foundations of a boom do not get stronger with passing time. Without trying to forecast the 1949 business pattern from this distance, we think there is a valid basis at least for a questioning, skeptical attitude. Supposing that the recession is now at long last actually shaping up, what would it mean for the stock market? As we have said before, there has (*Please turn to page* 661)



BUSINESS and Economic Implications of . . . . .

WANING INDUSTRIAL EXPANSION

By E. A. KRAUSS

Since the end of the war, capital expenditures by industry and business have greatly contributed to the strength of the boom. Normally such outlays are one of the most important, but also most unstable elements in our economy, fluctuating sharply with the business cycle. In the postwar era, the trend has been consistently upward, reflecting new and accumulated requirements for productive facilities to meet the enormous demand for virtually every type of product. Together with huge inventory replacement needs and booming exports, they combined to push production and employment to unprecedented heights. Needless to say, any marked weakening of these major props to our present-day economy is bound to have incisive repercussions on the future course of economic activity. Should several of these factors weaken simultaneously, a recession in business will be inevitable unless offset by new stimulants.

In recent months we have seen export demand drop rather precipitously though ERP now will act as a cushion against a further drop. The inventory boom is levelling off. Pipelines already are filled to overflowing as far as soft goods are concerned, though a good deal of inventory rebuilding still remains to be done in many hard goods lines. But the peak appears to be passed. On the other hand, capital expenditures for plant expansion so far have held at exceptionally high levels but there are now signs of hesitation. Hence the big question: Is plant expansion definitely waning, ahead of the point (some time in 1949) when a downtrend is generally expected as most postwar expansion programs have been completed? If so, it would seem a turning point perhaps much sooner than anticipated.

So far in every year since the war's end, industry has increased its outlays for new capital investments. This year it has planned to spend for this purpose some $18.6 billion, according to official estimates. This would be 15% above the previous record of $16.2 billion of actual expenditures in 1947, a gain considerably smaller than the 35% rise between 1946 and 1947. If current year plans are fulfilled, industry will have spent some $47 billion for new plant and equipment in the first three calendar years after the war, much of it for reconversion and replacement of obsolete and worn-out facilities.

The latter point is important, for it has a significant bearing on the relative weight of the overall figure. Allowing for depreciation of plant and equipment (conservatively estimated for 1946-48 at about $18 to $19 billion), net additions to capital assets appear to have been comparatively modest, particularly in view of the population growth and reduced capital investment (for civilian purposes) during the war years. If one further considers the fact that depreciation is calculated on basis of substantially lower prewar costs, while postwar expansion was undertaken at much higher postwar prices, it strengthens the point made before, namely that net physical additions have been much smaller than suggested by the gross figure of $47 billion. As a result, prospects for continuation of the capital goods boom, though at a lesser rate, may actually be better than many think.

Divergent Trends in 1948 Capital Outlays

During the current year, manufacturing enterprises anticipate expenditures aggregating some $7.8 billion, a gain of $300 million or only 4% over actual outlays made in 1947. While the share of manufacturing in total capital spending has been declining, it will still account for some 40% of the national total. Against this, utilities, railroads and the oil industry together account for almost 45% of total projected plant and equipment outlays this year, and they may gain in relative importance next year. To a consider-

able extent, their postwar expansion was delayed until reconversion of the manufacturing industries, particularly those producing needed capital goods, was well advanced, in other words they got a later start and therefore still have considerable expansion backlogs. Thus utilities and commercial enterprises are planning to spend 20% more on new facilities this year, and the rails fully 75% more.

Expenditures on New Plant and Equipment By U. S. Business

(In Millions of Dollars)

	1947				1948		
	Jan.-March	Apl.-June	July-Sept.	Oct.-Dec.	Jan.-March	Apl.-June*	July-Sept.*
Manufacturing	1450	1850	1870	2290	1800	2010	1850
Mining	150	160	180	210	180	180	180
Railroads	160	220	230	300	270	350	380
Other Transportation	180	230	200	190	180	210	170
Electric and gas utilities	330	450	500	620	500	610	650
Commercial & Miscellaneous	900	1030	1160	1340	1240	1330	1340
TOTAL	3160	3940	4140	4940	4170	4690	4570

Source: Securities and Exchange Commission *Estimates based on anticipated capital expenditures

Still to judge by the trend of contemplated outlays for the present year (see table), it appears that overall capital spending is slowing down. Though the dollar volume in 1948 is expected to exceed 1947 expenditures, it will run below the rate of the fourth quarter of 1947. Similarly, the rate of planned outlays in the second half is expected to fall somewhat below that for the second quarter of this year. Available figures of course represent merely intentions which may be subject to change, depending on developments. Significantly, the latest figures for the first time are lower than original intentions reported earlier in the year; previously, intentions were regularly underestimated. Thus at this juncture, the trend seems in the direction of contraction rather than otherwise, and there are a number of tangible reasons for it.

A good many industries are now undergoing a relatively declining demand for their products as consumers adjust spending patterns to prewar norms, as in food, textiles, apparel and related lines. Where expansion in such lines is not yet completed, the urge for it will be considerably lessened by the declining need. Others, especially certain metal-using industries, though their output is in strong demand, are unable to utilize fully present, let alone expanded capacity, because of the shortage of steel and other basic materials. Here, too, the attitude towards expansion now may be found weaker, especially since the steel shortage is likely to worsen rather than improve.

A third and increasingly important factor are high costs which constitute a severe handicap to further expansion of facilities. Quite often the gap in costs between the planning and completion stage has been truly confounding, and construction delays have added greatly to cost schedules. In fact, actual expenditures have been keyed to delivery schedules over which the purchaser had little or no control.

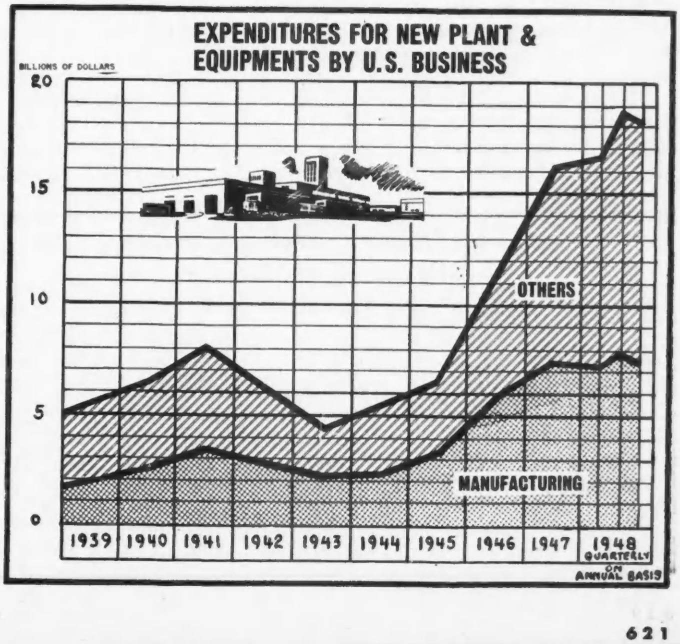
The impact of costs, notably building costs, already has led to a marked decline in industrial construction. Though overall capital outlays so far are holding up well, the bulk for some time has gone for equipment rather than new plant structures. Of the year's estimated total of $18.6 billion, all but $3.3 billion is to be for new machinery rather than buildings!

We now hear of a good many cases where expansion projects are being abandoned or postponed because of soaring costs. Concrete examples include the recent shelving of plans by Stanolind Oil & Gas Co. for a multi-million dollar plant to make synthetic petroleum products from natural gas, and the postponement of various expansion moves by du Pont after spending, so far, about $350 million for expansion and new construction. Others, such as Glidden Co. for example, while going on with their programs are stepping down hard on any waste or frills in order to keep costs down. Frequently, plans are cut down both in size and scope.

Industry's Drive Against High Costs

All of which brings into focus what appears to be shaping into a large-scale drive against high industrial costs throughout major industries. Doubtless project abandonments have been quite frequent, if unpublicized in many cases. The Stanolind move no more than parallels and reflects similar decisions elsewhere.

Despite efforts last winter to hold down new plant costs by changing from "cost plus" to "lump sum" contracts, the switch was not successfully made and costs as a result have continued to climb regardless of economies effected by new methods. More recently, moreover, abandonment of basing point pricing has added to the cost of steel and cement, and higher freight rates have boosted all around costs. Higher



costs, among other things, have definitely slowed industrial decentralization plans. Should the trend continue or deepen, it will not only further weaken industrial construction activity but force down the volume of durable goods sales to industry.

How much industrial building already has dropped is shown by latest Government figures on new construction actually put in place. Whereas total new construction of all types last June showed a gain of 38% over the same month last year, industrial construction was off 21% despite this year's higher dollar costs. For the first six months, the average decline came to about 12%.

No Great Stimulus From Rearmament

The rearmament program, at this stage at least, is not expected to increase the capital investment needs of most companies. The expansion carried on since the war will be sufficient to take care of additional production that might be necessary in the future. Even a future increase in preparedness spending may mean wider use of second and third factory shifts and stepped up production schedules rather than further expansion of physical plant. Exceptions are the railroads, utilities and the oil industry, confronted by still greater demands at a time when capacity expansion is already being pushed to physical limits, hence the extraordinary scope of their planned additions.

Broadly speaking, then, while the peak in new plant construction has been passed, the same may be true of outlays for equipment and machinery to implement modernization and intra-plant expansion plans. Unquestionably such plans at present have in many cases become much more tentative than previously. Moreover a number of projects still in the "intended" category are of a marginal and less urgent nature. Rising costs or uncertainties about the business outlook may well result in their definite deferment.

In view of these trends, it would not surprise if fourth quarter expansion outlays by industry would fail to come up to expectations. To meet earlier estimates, they would have to increase some $700 million over third quarter "intentions," and some $300 million over the peak figure of the final quarter last year. If they don't, and this is more likely, it would rather definitely mark a turning point, but it would be premature to read into it evidence of an impending sharp drop.

There are a good many reasons for believing that capital expansion may continue quite substantial well into 1949 and beyond, barring a fairly severe recession in business not now in sight. Businessmen generally appear to have become more conscious of the expansion in, and modernization of, capacity that may be required because of population growth and technological developments. There is evidence of a considerable volume of plans based on such considerations, which may become activated when conditions are deemed favorable, that is when costs are going down.

The pressure of stiffening competition alone will doubtless act as a continuing spur to capital improvements and additions in many lines. And as new facilities for turning out steel and other basic materials come into operation, those metal-using industries whose products remain in strong demand, may be encouraged to consider undertaking additional broadening of productive facilities. Moreover, the heavy rate of use of manufacturing equipment during and after the war assures heavy replacement demand in coming years.

Large Long Range Expansion Plans

The three industries which currently account for well over 50% of total capital expenditures—utilities, telephone and petroleum—have expansion programs extending several years ahead, some as far as 1952. For both physical and financial reasons, these programs necessitate long range commitments and therefore will probably be carried out as planned, or even augmented, regardless of changes in general business trends. Utilities expect to spend at least $7.5 billion on new facilities in the next five years. Off-shore oil development and exploitation of foreign oils resources should further accelerate the already very substantial expansion program of the petroleum industry. Similarly, continuation of favorable business conditions will assure high outlays for badly needed equipment by the railroads and local transit companies. Other substantial expansion programs are carried out by the steel, chemical and paper industries, but some of these are approaching completion.

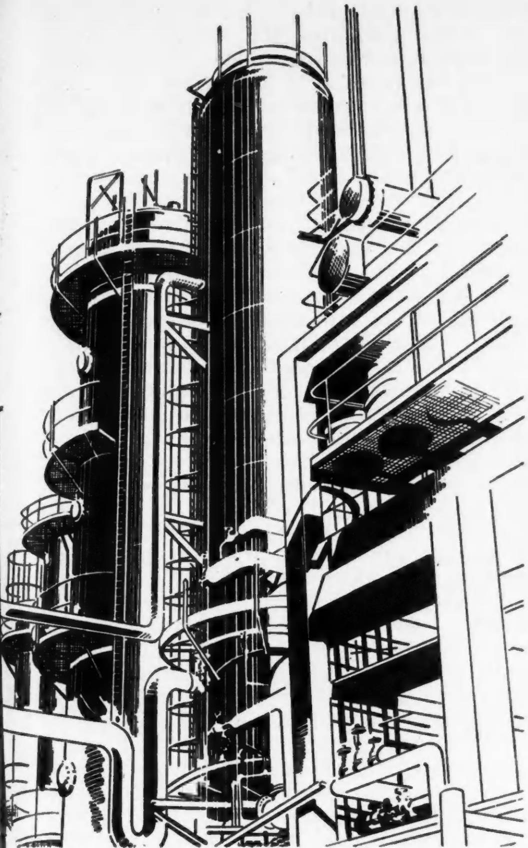
Though capital investments henceforth will taper off, and this is a foregone conclusion since much of the postwar expansion movement is approaching completion, they can be expected to continue sufficiently substantial to furnish a respectable prop to the economy for some years to come. This is important, for long run prosperity hinges upon the ability of the economy to generate an appropriate rate of capital expenditures. In turn, this depends on the trend of demand for the products of industry and on technological developments. Both in large degree will determine industry's willingness to undertake further capital investments in the years ahead.

Any further clouding of the business horizon will naturally affect this willingness. It is probably no exaggeration to say that the aura of unreality that seems to surround the current business scene has a good deal to do with the growing hesitation la[illegible]erly evident in the field of [illegible]apital expansion. Any clea[illegible]ng of the outlook, in a c[illegible]nstructive way, may well ov[illegible]rcome this timidity, giving the capital goods boom a new lease on life, at least (*Please turn to page* 661)

Proposed Uses of Estimated Net Proceeds from Offerings of Corporate Securities

(Amounts in Millions of Dollars)

	1945	1946	1947	1947 Apr.-June	1947 July-Sept.	1947 Oct.-Dec.	1948 Jan.-March	1948 Apr.-June
Total net proceeds	5,902	6,757	6,111	1,605	1,266	2,223	1,614	1,647
New money	1,080	3,279	4,270	932	797	1,868	1,400	1,343
Plant and equipment	638	2,115	3,224	636	649	1,543	845	1,080
Working capital	442	1,164	1,046	296	148	325	555	263
Retirement of securities	4,689	3,246	1,688	656	413	287	193	256
Other purposes	133	231	153	17	56	68	21	48



Expenditures for foreign oil development ranked high among new American investments abroad.

Photo by Standard of N. Y.

. . . . *Significance of* . . . .
Growing American Investments Abroad

By JOHN DANA

After a prolonged period during which private U. S. capital, on net balance, withdrew from foreign countries, American investment dollars are once more flowing overseas in mounting volume. The turn actually came back in 1945, but it was not until last year that the new trend really became more pronounced. Thus in 1947, American investors placed an estimated $744 million *net* in foreign enterprises and securities, a greater amount than at any time since the boom days of 1938 and considerably more than the $571 million average of the early post-World War I period.

Altogether, U. S. investments abroad jumped $8.1 billion last year to an all-time high of $28.8 billion, the Department of Commerce estimates. By contrast, foreign investments in this country increased only $100 million to $16.5 billion. Private American investments abroad were $16.7 billion in 1947 while U. S. Government credits granted to foreign nations amounted to $12.1 billion, increases of $1.1 billion and $7 billion respectively since 1946. The latter amount included subscriptions of $3.1 billion to the World Bank and the International Monetary Fund, $2.85 billion paid under the British loan agreement, $800 million Export-Import Bank credits and credits of $300 million on sales of surplus property and ships. Repayments of loans by foreign countries amounted to only $200 million.

However, it is in the field of private investment where the most significant changes are noted; the trend of new investments abroad followed a substantially different pattern from the general experience of the early 1920s. At that time, some 90% of American foreign investments consisted of publicly offered foreign dollar bonds purchased in relatively small lots by a large number of individual and corporate investors. By contrast, some $666 million or 90% of the 1947 net outflow of capital consisted of direct investments, almost entirely by corporations, setting a new record. In other words, postwar reconstruction abroad to which private investors contributed substantially (often to their sorrow) after the first World War is being financed largely through Government loans and credits shifting the risk from private to official shoulders. On the other hand, American industry is forcefully striking out to bolster its stake abroad and aid in world recovery. Both trends have considerable long term significance.

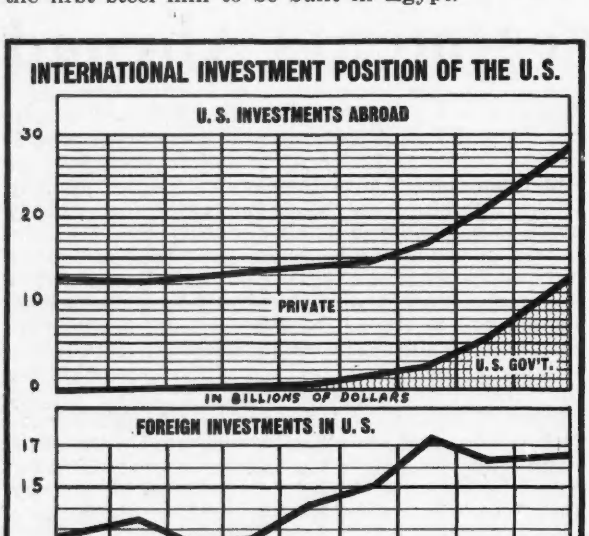
Bulk of Funds for Foreign Branches

Most of last year's outflow of private capital went into foreign branches and subsidiaries of American firms; on the other hand, there was an unusually small net increase (only about $2 million) in holdings of foreign securities, due no doubt to the unsettled political and economic conditions abroad, particularly in Europe, which led to a substantial deterioration in the prices of foreign securities. Generally speaking, purchases of $243 million of World Bank bonds by American investors, and a net capital investment abroad of $455 million by the petroleum industry were the two main features

in the outflow of dollars last year. Direct new investments in manufacturing came to only $69 million.

Of the $666 million directly invested abroad, Latin America obtained the lion's share with $408 million, of which $263 million constituted petroleum industry investments. Some $51 million were invested in manufacturing, $32 million in distribution, $16 million in mining and $18 million in public utilities. An additional $115 million went to the Middle East—Africa area, mostly in the form of capital equipment and other goods. The bulk of these investments were also made by the petroleum industry.

In the interest of developing new petroleum resources abroad and thereby help ameliorate the global shortage of oil products as well as bolster our strategic oil reserves, many millions were spent in exporting pipe and other oil-producing, refining and related equipment, and U. S. firms acquired a record number of tankers for operation under foreign flags. Among substantial commitments overseas were $100 million by the Standard Oil groups to construct a refinery, pipe line and tanker terminals in Venezuela, and $140 million for a refinery in England; $100 million by Gulf Oil Company for exploration work in numerous foreign countries and for the drilling of new oil wells in the Persian Gulf area; $37.5 million by Bethlehem Steel Corporation to develop Latin American iron ore properties; $150 million by Anaconda Copper Mining Company for mines in Chile; $65 million by a publishers' group to build a newsprint mill in Canada; and $60 million by a financial group for the establishment of the first steel mill to be built in Egypt.



Though small in relation to U. S. Government aid granted to foreign countries, the outflow of direct investment capital served to finance a significant amount of American exports last year. In many cases, the capital was exported in the form of equipment and other goods. Additional funds were disbursed to pay local labor and cover other expenses abroad; these payments added to the general supply of dollars available to cover foreign import needs in the United States. Although their contribution to the immediate dollar shortage problem may not have been too substantial, their long-run effect on the balance of payment positions of the recipients of U. S. capital should be much more significant. This is particularly true of the Caribbean and Middle Eastern areas where increased petroleum exports should add substantially to the foreign exchange earnings of the countries concerned, thus to their future ability to buy American goods.

Government Loans, Grants Continue Large

As far as Government loans and grants are concerned, 1947 and even more so the first quarter of 1948 represented the transition between the various aid and loan programs initiated around the end of the war and the coordinated approach of the European Recovery program. Net Government aid abroad during the first three months of the year amounted to over $1.4 billion, about twice the amount disbursed during the last quarter of 1947. Disbursements on Government grants, which reached an annual rate of nearly $3.4 billion, were larger than at any other time since the end of the war. The burden of world reconstruction thus will continue to rest upon governmental shoulders, reflecting the economic and political instability of large parts of the globe which hardly forms a reassuring basis for private investment on the huge scale necessary to achieve desired results.

Yet private investments, particularly in the form of direct investment by American enterprise, is likely to broaden further, though hardly on a scale commensurate with foreign capital requirements. In all likelihood, it will be mainly along the pattern observed during the last two years, that is direct investment in foreign branch factories and subsidiaries, or foreign producing facilities. Since a substantial portion of such direct investment capital will be tied to exports of machinery and equipment which would likely not be shipped abroad were the investment not made, it will continue to bolster exports to the extent of such capital outflow.

Direct Investments and Exports

The trend in this direction has become rather pronounced; purposes behind it are manifold. Foreign oil development by U. S. concerns will continue to make for sizeable capital investments including heavy equipment exports, since plans along such lines are far from completed. Expansion of operations of foreign manufacturing subsidiaries, or the creation of new ones, will be motivated not only by the desire to secure or extend foreign markets but frequently also to improve competitive positions in the world markets as normal competition returns.

Thus only in recent months, certain manufacturers of machinery and of durable consumer goods found it desirable to transfer a portion of their activities to foreign subsidiaries which, due to better

raw material supply and lower operating costs—particularly wage costs, are better able to compete abroad than their high-cost domestic product. For the moment, the principal repercussion of such moves will be the easing of supply pressure on domestic raw materials resources and of price pressure on still scarce materials such as metals; in short it will be beneficial, since no marked reduction of the domestic production potential and employment is involved. It may be different in the long run, however, portending lessened production and employment potentials at home once the economic curve begins to trend downward. Yet in view of existing trade barriers, there may be no choice, nor under revived competitive conditions in world markets. The American economy after all is a high cost economy; even more important, the universal dollar shortage is likely to continue a long time, militating against fullest exploitation of world markets through direct exports of high-priced American goods.

For the next few years at least, the problem facing the world will be how to finance purchases from the U. S. in larger amounts than we will be able or willing to spend abroad. The answer can lie only in loans and grants (as at present) which cannot continue forever, or in movements of capital and gold. A substantial outflow of long term capital from this country on an economically sound basis could be one of the principal means of bridging the gap between imports and exports. Since it is extremely unlikely that American investors will be receptive to any large amounts of new foreign securities, a further outflow of direct investment capital appears to be the most practical means of achieving a balance.

Favorable Environment Needed

Undoubtedly American capital is willing but the foreign environment is not always conducive to its safe employment. Most foreign countries hold forth glowing promises of business opportunities if only American capital will assist in the development of their industries, and machinery and technical skill is urgently requested; yet frequently restrictions have been making such investments unprofitable and difficult. In many countries, there is only one way that an American concern may retain more or less complete ownership in its investment, and that is by means of a branch operation rather than an incorporated company. Hence the current trend in this very direction.

Elsewhere, in a more favorable environment, we may expect greater participation by indigenous capital in direct-investment enterprise, such as the joint participation, arranged in 1946, in Dutch industry on a minority basis, or B. F. Goodrich Co.'s participation in the formation of a Netherlands company to manufacture tires. A good many other types could be cited, such as the exploitation of Liberian resources by American capital. At any rate the following factors are likely to foster strongly the postwar uptrend in direct American investments abroad: (1) the dollar shortage that limits foreign purchases in this country; (2) lower production costs abroad which enable American concerns, through branch operations, to compete more vigorously in world markets; (3) trade barriers that may stand in the way of direct USA imports; (4) the need for developing new raw material resources. A prerequisite, however, is maintenance of conditions that render such investments safe and profitable.

International Investment Position of the United States, Year-Ends 1946 and 1947

(In billions of dollars; direct investments at book value, securities at market value)

	1946	1947
United States investments abroad	20.7	28.8
Private investments	15.6	16.7
Long-term	14.3	15.1
Direct investments	8.5	9.4
Bonds payable in dollars	1.5	1.5
Securities payable in foreign currencies	2.8	2.7
Estates and trusts	.2	.2
Miscellaneous	1.2	1.3
Short-term	1.3	1.6
United States Government investments	5.1	12.1
Long-term	4.8	11.7
Short-term	.3	.4
Foreign investments in the United States	16.4	16.5
Private United States "obligations"	12.9	12.6
Long-term	7.7	7.4
Direct investments	2.6	2.6
Corporate shares	3.0	2.8
Corporate, state, and municipal bonds	.5	.4
Estates and trusts	.7	.7
Miscellaneous	.9	.9
Short-term	5.2	5.2
Deposits	4.7	4.7
Brokerage balances	.1	.1
Other	.4	.4
United States Government obligations	3.5	3.9
Long-term	.3	.4
Short-term	3.2	3.5

The withdrawal of American entrepreneurial capital from foreign countries during the war was closely related to a consideration for the safety of property and profit prospects, just as the recent closing of American facilities in such countries as Argentina was the result of conditions inimical to their profitable and efficient operation. Still and all, American industry's stake abroad has remained substantial. Although 400 American controlled companies operating abroad were sold to foreigners or liquidated during the war years, an even greater number of new companies, fully 1,000, but involving a smaller total investment, were reported to have been established by Americans abroad. Others increased their investments by reinvesting foreign earnings, by making new investments or by advancing additional funds to controlled enterprises. Almost all of the new investments were made in the Western Hemisphere, principally in Canada, and to a lesser extent in Mexico and the Caribbean area, with capital directed mainly toward manufacturing and distributing facilities.

Except for Middle East oil projects, most of the future direct investments will probably continue to be made in Canada and Latin America. The paper and pulp industry, petroleum and possibly iron ore mining in Canada, petroleum and iron ore development in South America, and industrial development in Mexico would seem to be most likely outlets. All of which, with the possible exception of the latter, will strengthen rather than weaken our own industrial and trade position.

The U. S. Government would like to lure some $5 billion in private U. S. (*Please turn to page* 655)

BENEFITS AND HAZARDS IN

U. S. GOVERNMENT BOND Support

—SHOULD SUPPORT LEVELS BE LOWERED?

YES— SAYS THOMAS L. GODEY

It is my conviction—and in this I am certainly not alone—that the time has come to take really effective measures to halt inflation. Lowering support levels for Government bonds is such a step—in fact the only really effective step. Most observers are in agreement that the threat of further inflation is a real one, despite various signs seemingly pointing away from it. Inflation already has reached the danger point; the further it is allowed to go, the greater the "bust" that ultimately, and inevitably, will follow.

The modest policy of credit restraint carried out since last fall proved virtually ineffective from the standpoint of halting inflation; the latter has continued merrily, and rather more virulantly than ever before. Bank credit has expanded steadily, with Government bond pegs acting as an inducement to institutional lenders to sell their bond holdings to the Federal Reserve System in favor of other and more lucrative lending or investment opportunities. True, lowering bond support levels entails certain risks, but in my opinion these risks can hardly be greater, and more threatening to our economic welfare, than the risk of continued unfettered inflation.

Particularly in the light of the pressure towards higher interest rates, our rigid support policy has become something of an anomaly. The basic trend of interest rates is up, meaning that the trend of bond prices is down. Only assurance of Federal support keeps the market for government bonds where it is. Our credit control measures, mild as they were, have been further circumscribed by the policy of maintaining the basic 2½% rate on longterm government bonds, to which our monetary authorities have committed themselves. While trying to tighten up credit with the one hand, these authorities, by supporting the bond market, with the other hand extend an open invitation to the commercial credit system to expand at will.

Anti-inflation steps via credit curbs included the raising of shortterm interest rates and of the rediscount rate, revival of consumer credit restricttions, and most recently and for the second time—an increase in bank reserve requirements. The first three steps, apart from moderately stiffening lending rates, accomplished nothing in the way of restraining credit. Business loans by banks have risen to record highs and presently total some $14.8 billion or $2.3 billion more than a year ago.

Recent Heavy Open Market Purchases

Lending activity by non-bank lenders, particularly insurance companies, loan associations, etc. has picked up strongly in a desire to improve investment yields. So much so, in fact, that the Federal Reserve System in a recent five-week period was forced to absorb longterm Government bonds to the tune of over $1.3 billion, mostly from insurance companies,

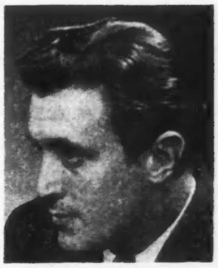
with the result that the System's government security holdings now aggregate some $7.79 billion compared with $6.56 billion a year ago. This is highly inflationary. Obviously maintenance of government bond pegs at or above par invites bond selling, making for dangerous credit expansion by increasing institutional lending power. It also completely nullifies the policy of placing as much of the public debt as possible outside of the banking system. And if left within the banking system, it will always be "dynamite."

Unfortunately the latest increase in reserve requirements seems to serve notice that the Federal Reserve Board has selected this anti-inflation weapon rather than dip support levels on Government bonds. This is regrettable and, in my opinion, it will hardly be effective. Raising reserve requirements will syphon off some $1.9 billion in lendable bank funds, but it won't restrict lending power. To meet the new requirements the banks will be forced to sell some $1.5 billion of their government security holdings, reducing their liquidity and earning assets. It probably will somewhat further tighten the money and mortgage market, but it will not reduce their ability to lend since they can always sell—at fixed support levels—more government bonds out of their huge holdings to obtain fresh lending money. In fact the urge to sell will be strong if only to compensate for the earnings loss arising from the sterilization of added funds. And rising commercial interest rates will offer a tempting opportunity for credit to shift from low-yielding government bonds into higher rate loans.

The Government support policy distinctly encourages this. Nor do higher bank reserve requirements affect in any way the lending activity of insurance companies. It hits member banks and borrowers from member banks first and foremost, but leaves other credit channels wide open. This is inequitable as far as the banks are concerned; it is also undesirable and unhealthy from a general financial and economic viewpoint.

Lowering the bond pegs would seem to be the only remedy, that is allowing the bond prices to decline below par so that a bondholder would be forced to sell at a loss if selling prior to maturity. This would cut off access to Federal Reserve Bank credit to non-bank lenders, drying up one of the prime sources of credit expansion. It would also dampen any propensity of bank lenders towards excessive lending. In other words, for the first time there would be an effective halt to credit (*Please turn to page* 655)

NO — IS THE VIEW OF



J. S. WILLIAMS

The wisdom, or alleged lack of it, of our present government bond support policy has long been a matter of considerable controversy and debate, and admittedly the debate is waxing hotter. No one can close his mind to the disadvantages of this policy and its inflationary implications. It is not surprising, therefore, to see increasing pressure in favor of lowering bond support levels, particularly in view of the recent sharp rise in insurance company bond sales and the use of the proceeds to expand their loans to business. In my opinion, though, it is a question of choosing the lesser evil.

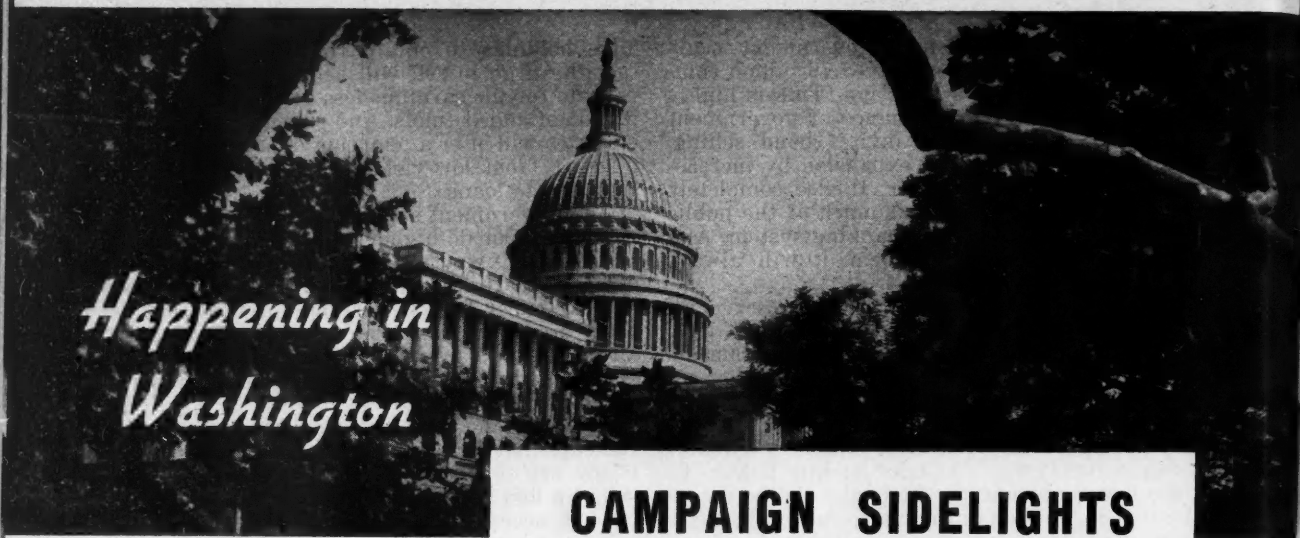
It is my impression that the problems and potential threats arising from a reversal of policy at this time are frequently underrated. They are great enough to warrant serious thought; they certainly argue against hasty and ill-considered action. Doubtless the risk inherent in the forced liquidation of longterm government bonds (which is inevitable, should bond pegs be dropped or lowered) is bound to cause contagious unsettlement in the entire government securities market, in fact in the entire bond market, with largely unpredictable results. The same can probably be said if merely the premiums over par were eliminated; it certainly would stimulate considerable selling and inject entirely too much uncertainty in the market. All of which would be highly unsettling.

Moreover there is every indication that any such move would have too great a depressive influence on the slowly changing scale of economic balance, currently under way. It is quite certain that neither the Treasury nor the Federal Reserve Board have any great desire to pay expensive premiums to support the government bond market, only to see the proceeds of bond sales go into inflationary loans. But neither can they be desirous of permitting the government bond market to become the fuse that sets off a serious business recession. Too sharp a rein on inflation, it must be recognized, could readily and suddenly throw the country into a severe deflationary spin. Thus in the end, lowering bond supports would serve no useful purpose; it would merely substitute the problems of deflation for those of inflation.

At some earlier stage of the inflationary spiral, such a move might have been practical and useful; at the present stage it would not only be belated as an anti-inflationary measure, but decidedly hazardous. For this reason the Federal Reserve Board is forced to resort to other measures; the rise in reserve requirements, for instance, will prove a useful adjunct to the bond support policy with the former off-setting the credit-inflationary effect of the latter.

Inflation Slowing Down

It is plain that the momentum of inflation has begun to slow down and should come to a standstill in the next several months. To apply now the drastic remedy of lower bond support levels would make the reaction worse than the disease. Many banks, especially country banks, would find themselves frozen into their bond portfolios if longterm governments were allowed to drop below par. Credit would become over-tight, speeding the trend towards a severe recession since credit needs for essential business purposes would undoubtedly suffer. There is no middle road, putting the proper degree of pressure on lenders without precipitating an undesirable curtailment of production and employment. One is bound to follow in the (*Please turn to page* 656)



CAMPAIGN SIDELIGHTS

By E. K. T.

TOO GOOD to be true, lament news-hungry Washington correspondents, but the rumor persists with encouragement from high places that Gov. Thomas E. Dewey soon will make a trip to Washington, appear as a private citizen to testify before the Federal Power Commission on the subject of private vs. public power development. The visit, so the story goes, will be motivated by consideration of power aspects of the St. Lawrence Waterway idea, which President Truman urges be carried out to its fullest potentialities. Gov. Dewey is on the side of private enterprise. The clash would we deafening.

WASHINGTON SEES:

Interesting sidelight to the national election drive is the fact that more news correspondents have signed for space on the Warren campaign train than have indicated to GOP headquarters their intention to accompany the Dewey entourage.

Gov. Earl Warren of California, the republican vice presidential hopeful, will be stared at and listened to, perhaps, by more serious-minded voters than will register interest in any of the other top-spot seekers, it now seems certain.

Variations of the comment "it is possible to admire Dewey without liking him" are numerous, but probably contribute little to the focusing of interest on Warren. It probably is the planned new role for the vice presidency—administrative plus legislative tasks—that makes more persons want to see, hear, and appraise him.

Meanwhile, confident Dewey casting about for chores for Warren, can gain little encouragement from the experiences of men who have been in the White House. Jefferson, as vice president, turned down Adams' offers, held that his office is confined by the constitution to legislative work. Theodore Roosevelt promised to make his vice president a Cabinet officer, and so also did Harding. Neither carried through. FDR gave Wallace executive posts, found it necessary to fire him from them.

DANGER in which Sen. Joseph H. Ball finds himself in the election campaign in Minnesota (his democratic opponent, Mayor Humphreys of Minneapolis, is far out-distancing the senator in polls), has resulted in a decision by the Taft-Hartley Law "watchdog committee" to suspend activities until after election. The reasoning is obvious; the action establishes the fact that the committee will propose in its Jan. 1 report that the law be tightened up in important particulars. Confirmation of this truth by further committee activity would estrange the little labor vote Ball now has.

STATE'S RIGHTS may take a new twist in the next session of congress. Under consideration is an across-the-board cut of 20 per cent in federal payments of all description to the states. The National Conference of Governors has a committee working with the house and senate committees on intergovernmental relations and the idea of severance of the states from the bankroll as well as from control in internal matters has won approval. Under the program, states wouldn't have a net loss; the federal government would withdraw from certain fields of taxation, one of them possibly being alcoholic beverages.

CABINET appointment, to the Department of Agriculture, is understood to be in the works for Rep. Everett Dirksen of Illinois, if Gov. Dewey wins the Presidency. Originally slated for that post was Rep. Clifford Hope of Kansas, easily the outstanding GOP farm authority in congress; but Hope wants no part of it. Dirksen is not a candidate for reelection from a district which thinks so much of him it financed a world tour for him by popular subscription. Physicians have advised less activity for a while. He'll comply literally; will run for the U. S. Senate in 1950.

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Important Advance Notice
of Increase in Price!

As We Go To Press

First blasts in the Presidential election campaign were enough to suggest a score board will be necessary to keep account of the errors. The initial exchange came between Harold Stassen and Charles F. Brannan, Secretary of Agriculture. Stassen blamed Brannan for high cost of living, charging the Secretary with issuing statements of food purchases for overseas use, showing the amounts, accordingly inviting price increases. It was clearly shown, and promptly, that Brannan had issued no such statements.

Brannan was not to leave Stassen alone in error. Immediately he came back and charged Stassen and Gov. Dewey with joining in the original statement for the purpose of linking high prices to farm commodity price support, thereby wipe out the latter. Plainly, price support was not, could not have been, involved.

National Munitions Board has been giving advice to others with a free hand (industry dispersal, etc.) but obviously isn't doing an outstanding job of its prime mission -- stockpiling of strategic materials whose procurement might be difficult or impossible in case of war. It has power to spend 3.5 billion dollars to buy and store. In the first two years of operation, the stockpile inventory reached a total of only 87 million dollars, then zoomed, relatively, to 600 millions. But that's still very far from the goal set.

There's partial answer in the fact that some items -- 18 in all, and including the all-important uranium -- present storage and maintenance difficulties. But there are 67 others which give rise to no problems of such degree. There have been some minor delays -- the Board has remained out of some markets to avoid diversion of materials which private industry needed for reconversion. But henceforth civilian requirements will play second fiddle to the military . A sign of the times!

Suggested reading for executives charged with the job of creating industrial peace is a new booklet by the National Planning Association -- nonprofit, nonpolitical research organization now in its 15th year of existence in Washington. Theory is that there are "causes" underlying harmony between employer and employee, just as there are "causes" of strife.

NPA states it in this telling way: "Both businessmen and labor leaders plagued by industrial warfare can profit from the practical experience of companies and unions who have achieved constructive industrial peace. Though such experience offers no single cure-all for industrial conflict, one factor present in thousands of unpublicized cases is an active striving for peace by employers who believe in the principles and actual practice of true collective bargaining and by unions who accept private ownership and operation of industry." Authors are 29 leaders from business, labor and the universities.

Pre-adjournment stampedes in congress, of which there were two of the most serious ones in the past several months, may be ended by changes in the rules of procedure next year. The spectacle of senators and representatives being awakened from slumber in chairs to vote on vital policy matters, without having heard the debate, was not reassuring to the galleries. In past periods of legislating stress, deaths have been the penalties; the average lawmaker is none too young and by the time adjournment nears he's pretty well exhausted.

Suggested cure is a "budgeting" of proposed actions. At the outset, leaders of both parties, chairmen and ranking members of committees would set their programs with definite dates for final action on specified bills. Each month the situation would be reviewed, speed applied where indicated. Difficulty will come over the fact that no such program can be evolved while filibuster remains a senator's prerogative.

Rural Electrification co-ops are beginning to feel the pinch of rising costs but the word they are getting from Washington (to which they have carried their plight) is "the higher the costs of construction and maintenance, the higher will be the costs of the service you receive." Like private enterprise, REA co-ops are trying to keep on the go, realizing it's either move forward or move backward. There can be no standing still.

Members of the REA rural electrification co-ops pay the costs through their monthly service checks. There has been suggestion that some expansions, some types of maintenance, might be laid aside for a more favorable cost market. Claude R. Wickard, REA Commissioner, had a ready answer, NO..."REA is responsible to the American people for seeing that full value is obtained for every dollar of public funds invested in the projects."

Civilian employment in government agencies -- federal, state and local -- has risen substantially since the last pre-war year, but the story isn't fully told there. Senator Harry F. Byrd has made a special project of tracing, highlighting the spiral. In 1940, roughly, one out of each 14 gainfully employed persons in the United States received a government paycheck. Now the figure is about one out of each 10 employed persons.

Not counted are benefit payments to veterans and their kin. Some studies have indicated one out of each 20 persons in this country receives a VA check, or subsistence at home or in a hospital or other institution. Attention-arresting statistic is the one showing that there are only about 1 million more persons currently engaged in agriculture than work for the government.

Interesting lessons are being learned from reports coming back to Washington about the airlift which has kept 2.5 million persons in a reasonable degree of comfort in Berlin. Military and commercial air experts at first were in open agreement that enough coal, alone, couldn't be moved in by air for residential and other purposes. That fear has dissipated in the actual performance.

Climatic conditions have been favorable to the "lift." What can be accomplished in winter weather may be another story. Another favorable factor has been the short distance traveled by air. Military men don't think that has had important bearing. Brightest spot from the standpoint of meeting any international crisis that may arise, requiring the use of "lifts," is the relative speed with which great numbers of air freighters can be constructed, compared to the production records of shipyards.

First organized opposition to the National Security Resources Board idea of industry and population dispersal has come from the politically potent real estate lobby. To begin with, it's not a new idea, says the National Association of Real Estate Boards; it has been the subject of studies since the 30's. Admittedly, the atomic bomb adds an important consideration but, it is argued, not a controlling one.

Keynote of the position taken by the realtors is: "Compactness in city arrangement is more convenient than a sprawling pattern, and the planners can show that compactness does not require congestion. Economy in land use, in financing local government services, in the provision of public utilities, and in the operation of public transportation favors compactness in community design."

With the high prices moved to the center of the political stage, the food industry, farmers, processors and distributors can't escape being smeared in the next two months. Both parties already are telling the farmer they love him best of all, but the issue eventually will involve him in the pitched battle. Trade organizations in the Capital already are stiffening for the attack but there's a noticeable absence of real concern on their part.

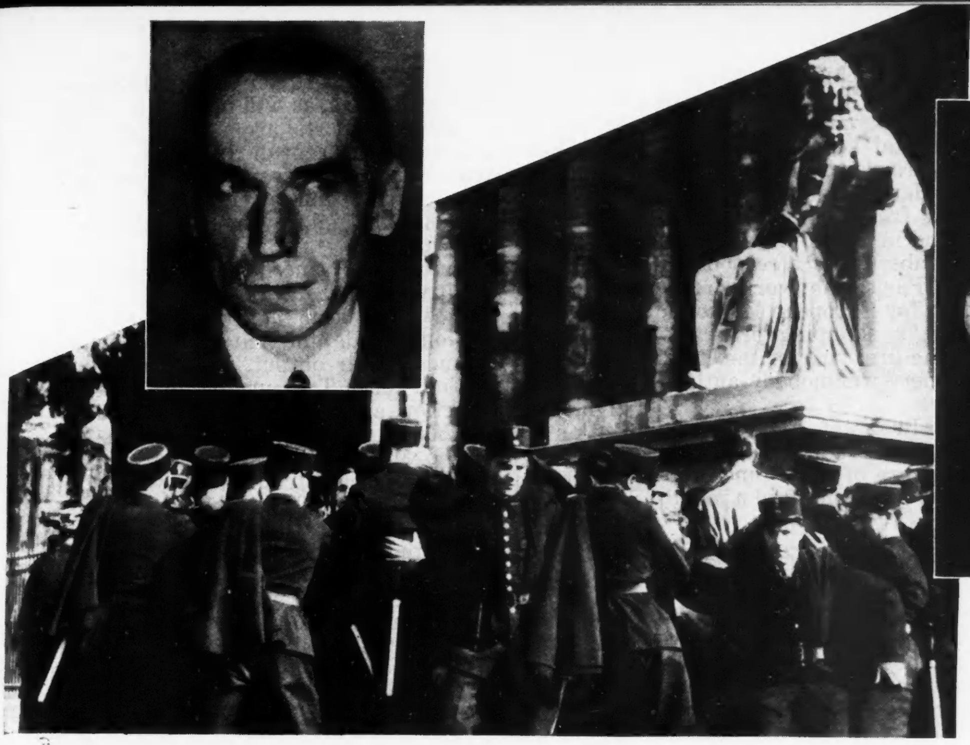


Photo by Press Assoc.

The problems that caused the fall of the cabinet of Andre Marie (left) are severely testing the new and unsteady coalition under Premier Henri Queuille (above).

FRANCE'S Perennial Crisis

By V. L. HOROTH

At the time of this writing, France has once more been passing through one of those perennial crises that have come to be taken for granted and shrugged off as a pecularity of the Gallic democratic system. Even if M. Henry Queuille, the new premier, should succeed in staying in power, the chances are that his coalition of moderates and socialists will be even wobblier and more confused than those of preceding Governments. The reason? It has to sell its supporters on a program which nobody wants to face: That the two great wars in less than half a century must be paid for by tightening the belt, by lower standards for everybody, and by hard work—all communist or socialist panaceas notwithstanding.

The point is that the present French crisis is more "tragic" as Mr. Schuman, now twice expremier, put it, than the previous crises. One reason for this is that the liberals and the moderate socialists who hitherto constituted the so-called "third force" feel that they can no longer effectively cooperate and give France a middle-of-the-road Government. Somebody else will have to try. A leftist government which would include the communists is unthinkable because it would offend the United States. A government of the right, including de Gaullists, is more likely—but France may end with a different type of democracy, and it remains to be seen whether Frenchmen will accept such a change in peace.

The second reason for the "tragedy" of the present crisis is that only a few weeks ago the National Assembly accepted a program that marked a *very definite shift to the right*—away from nationalization and other socialist practices of the post-war European economic trend. If M. Paul Reynaud had been allowed to carry out his program of strengthening private enterprise, and reforming the tax system, France would have been *within sight of monetary stability* and full-fledged *economic recovery* such as has taken place in Belgium. The corner would have been turned.

Rocky Road Ahead

What are the prospects for France? Politically, probably one government crisis after another; a gradual retreat of the middle-roaders, and perhaps elections in the near future. Under the new French constitution a national assembly that rejects two governments within a 19-month period may be dissolved. Elections are bound to strengthen the de Gaullists and probably also the communists at the expense of the "third force," facetiously and cynically labeled by the French themselves as "the third farce." But while the assuming of power by General de Gaulle may solve some of the present problems, it is almost certain to create many new ones. Briefly, there is no smooth road ahead.

Economically the present crisis is bound to retard France's recovery. Already there are indications, about which more will be said later, that there will be another turn in the inflationary spiral, that many recent gains in production and exports may be lost, and another devaluation of the franc inevitable. It may be months before the country is back where it was around the middle of August, ready to resume the carrying out of the Reynaud

Program of austerity and retrenchment.

Moreover, the repercussions of the present deadlock are likely to be felt even beyond France's borders. France is the continental keystone not only in the European Recovery Program, but also in the Western European Union. Her weakness handicaps the building of the united front against Russian aggression. The negotiations in Moscow have been complicated because of the absence of a responsible French representative. In Paris, the work of the Council of the Organization for European Economic Cooperation, now drawing "a shopping program" to guide the ECA during the first year of the ERP, has been delayed because there was nobody authorized to speak for France.

What was the Reynaud Program, and why did France fail to carry it out? To understand it, it may be best to sketch a picture of the French economic and financial situation as it appeared a month or so ago.

French Recovery Strides

France has made this year rather unexpected recovery strides. This year's harvest is the best since the war. The wheat crop alone is about one and a half times as large as last year. The coal mines are breaking all previous records, and with enough coal available from overseas, the overall supply will be nearly 60 per cent larger than in 1947. With the coal and coke bottleneck licked, steel output has been rapidly expanding, and last June France made nearly 700,000 tons of steel, more than in the best month of 1937. The output of the chemical industries is about 55 per cent above 1939, and the textile and other consumer industries have finally reached full capacity. Only labor is scarce. The output of electricity is also some 50 per cent above prewar, and will be stepped up further when the great Gennisiat plant on the river Rhone begins to operate in the near future.

The overall industrial production is nearly 120 per cent of 1938, or about 110 per cent of 1937, one of the best inter-war years, as will be seen from the accompanying table. Exports are also expanding. They were up some 18 per cent during the first half of 1948 as compared with the same period in 1947. Between larger exports and an excellent tourist season, there was some improvement in France's international payments.

There is no doubt that France has great recuperative power and it would not have been difficult to be optimistic, had there been no reverse side to France's situation. While the nationalized industries have expanded their output, it has been at a terrific cost to the French Treasury because of their high-cost production and inefficiency. The modernization and expansion of French industries has also been lagging; the Monnet Plan aiming at the expansion of the French industrial plant by some 50 per cent in 1952 has been all but abandoned.

The French financial situation has not been getting any better either. Tax collections have failed to come up to expectations and despite all efforts, the budgetary deficit has been increasing rather than contracting. Currently it is running at the annual rate of about 800 billion francs. The continuance of the heavy deficit—contrary to the pledge made by France as a recipient of ERP assistance—has been responsible for the slow but persistent rise of prices and the general instability of France's economy.

France: American Aid Extended Since July, 1940

A. Extended to March 31, 1948 (a)	
Wartime Lend Lease	$2,624,800,000
Postwar Grants-in-Aid:	
American Red Cross	9,600,000
U. N. R. R. A.	3,100,000
Interim Aid	237,700,000
Total postwar grants	$ 240,400,000
Postwar Credits and Loans	
Property credits (purchase of surplus war materials)	$ 840,200,000
Export-Import Bank loan (Sept., 1945)	550,000,000
Export-Import Bank loan (June, 1946)	650,000,000
Total loans and credits	$2,040,200,000
B. Extended between March 31, and August 25, 1948	
The remainder of the Interim Aid	$ 50,000,000
E C A authorizations (to Aug. 25)	316,000,000
Total	$ 366,000,000
GRAND TOTAL	$5,271,400,000

(a)—Based on the official data, reported in "Foreign Transactions of the U. S. Government," Department of Commerce, July 1948.

The Reynaud Program

Determined to restore France to economic and financial stability, M. Andre Marie, who became premier for a brief period of some 40 days early in July, called in Mr. Paul Reynaud, pre-war premier and finance minister and, incidentally, also one of the best tax collecting experts in France, to run the finance ministry. Starting with the realistic premise that the country must be reasonably self-sufficient by 1952, M. Reynaud worked out a program described "at par with that undertaken by Poincare in saving French economy after the First World War." It was proposed that the army be streamlined, several hundred thousand Government employees discharged, the nationalized industries reorganized, stricter control placed on social security expenditures and, most important of all, that the French taxation system, notorious for permitting tax evasions, be revised by January 1, 1949. Imports of consumer goods from the dollar area were to be reduced, and the imports of capital equipment encouraged instead. It was reported that in order to balance France's international payments, M. Reynaud also contemplated an early devaluation of the franc, probably to the uniform rate of 305 francs per dollar.*

However, the part of the Reynaud Program which was the most shocking from the viewpoint of the socialists and the most difficult to accept, was the proposal that *Government controls over industry and agriculture be materially relaxed*, and that Government subsidies on bread and milk be removed. This would have been *a return to a free market economy*, similar to that staged in Belgium and

*The dollar has four rates in France as present: the official rate of 214 francs, used to buy essentials in the dollar area; the free rate of 305 francs; the rate of 260 francs (average of the official and the free) at which exporters convert dollars for their merchandise, and the black market rate of about 360 to 400 francs to the dollar.

more recently in Western Germany. It would have resulted in much higher prices of food; M. Reynaud realized this and proposed therefore a general 10 per cent boost in wages.

He recognized that the recovery could not progress without restored confidence in the franc. With rural districts of Normandy and other parts of Europe reported to be bursting with marketable farm produce, and with industrial production near an all-time record, the shortage of goods is no longer the problem it was last year. The problem now is to stop the purchasing power from continually expanding. This M. Reynaud proposed to do by holding down wages (after granting the 10 per cent wage increase) and by balancing the budget.

As Marxists, the socialists and the communists who lead the labor unions in France naturally disliked the shift to the right and the return to a free market economy, and proposed that the purchasing power of the franc be held stable, not by *less* control, but by *more* Government control. They liked even less M. Raynaud's austerity program, and accused the Government of Premier Marie of favoring the already well-to-do farmers and traders. The communist-controlled unions countered the offer of a 10 per cent wage increase by demanding a 3,000 franc bonus ($10) a month. Such a bonus would have raised the minimum wages from 10,500 francs a month ($35) to 13,500 francs. Other wages and salaries were to be raised proportionately.

France: Economic and Financial Indices and Statistics

	Prices: Wholesale	Prices: Retail Food	Stock Prices	Note Circulation (billions of F.frs.)	Money Supply (b) (billions of F.frs.)	Industrial Product.	Foreign Trade: Exports (billions of F.frs.)	Foreign Trade: Imports (billions of F.frs.)
1937	100(a)	100(a)	100 (a)	94	131	100(a)	2.0	3.5
1945	375	436	897	570	1,071	45	0.9	4.8
1946	648	746	1,122	722	1,426	73	8.4	19.5
1947								
Jan.	874	981	1,042	730	1,421	82	14.5	23.7
Feb.	889	984	997	738	1,448	89	17.1	25.8
Mar.	860	964	1,068	746	1,488	90	16.3	27.4
Apr.	847	961	990	771	1,521	95	20.4	27.6
May	946	1,022	990	775	1,546	95	18.8	32.3
June	904	1,089	1,114	807	1,565	91	19.7	29.9
July	888	1,127	1,121	832	1,616	87	17.7	29.3
Aug.	1,004	1,260	1,255	838	1,656	79	15.5	26.6
Sept.	1,096	1,374	1,277	852	1,667	91	15.4	29.4
Oct.	1,129	1,515	1,212	868	1,683	93	18.3	30.4
Nov.	1,211	1,595	1,258	879	1,706	91	18.2	29.3
Dec.	1,217	1,612	1,136	921	1,720	84	15.7	29.1
1948								
Jan.	1,463	1,663	1,178	892	1,741	98	15.5	28.4
Feb.	1,537	1,784	1,127	......	......	105	15.5	28.4
Mar.	1,536	1,757	1,141	773	1,872	105	33.3	50.1
Apr.	1,555	1,764	1,124	759	1,908	105	37.4	57.9
May	1,653	1,783	1,070	769	......	109	37.1	52.7
June	1,691	1,792	1,036	791	......	......	44.3	61.2
July	......	1,795	......	837	......	......	44.3	61.2

(a)—1938 = 100.
(b)—Currency in circulation plus gross deposits of the Bank of France, commercial banks and postal savings banks.

Inflation Troubles

The truth is that while French labor has been responsible for the progressive inflation as much as have the other segments of French society, it has suffered more than they have. With food prices nearly 18 times higher than before the war (see table) and weekly earnings only about 10 times higher, the standard of living of the average French worker is considerably below 1938. A French family has to spend about 80 per cent of its income for food alone. But while French labor has been justified in demanding some wage increases, it is also true that these demands have been encouraged by the communists who, under directions from Moscow, have done all they could to forment inflation as a means of weakening France and holding back the progress of the Marshall Plan.

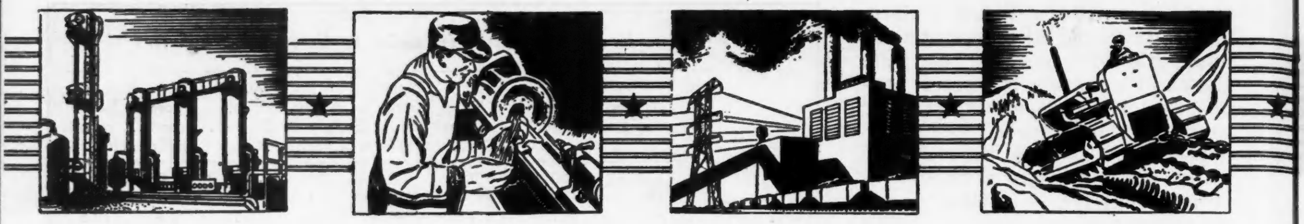
It was the corrosive influence of the communists that forced the moderate socialists, who feared that they might lose some of their following, to come out in favor of the 30 per cent wage increase and against the Reynaud Program—apparently contrary to the advice of some of their older leaders. It was this decision that split "the third force," and brought about the fall of the Marie Government. The short-lived second Schuman Government conceded the payment of a cost-of-living bonus and promised to keep the subsidy on bread and milk, but it still could not muster enough support among the socialists.

Each past wage boost in France was followed by a turn in the inflationary spiral: a rise in costs and a rise in prices. The latest wage boost, which is the fourth major one since 1945, will be no exception. Past experience has taught the people that by withholding their goods, they will eventually get higher prices. Although production is expanding, many goods have disappeared from the market; the farmers are keeping their bountiful crop at home. The flight from the franc is on; foreign shares are rising, and gold and foreign currencies have climbed to new highs on the black market. The latest quotation for the dollar is about 420 francs as against the free market price of 305 francs and the official rate of 214 francs.

A renewed upward rush of prices is already on, although it is still uncertain what the cost-of-living bonus is likely to be (probably 20 per cent). During the month of August—despite excellent crop prospects—the retail food index jumped some 10 per cent, and is now 23 per cent above the level at the beginning of the year, when wages were legally frozen.

Rising Prices Threaten Export Drive

What will be the effect of the latest development on the French export drive is not difficult to foresee. Even at 306 francs to the dollar, French export prices are at present slightly above the international price level (based on United States prices). The latest wage increase, (*Please turn to page* 658)



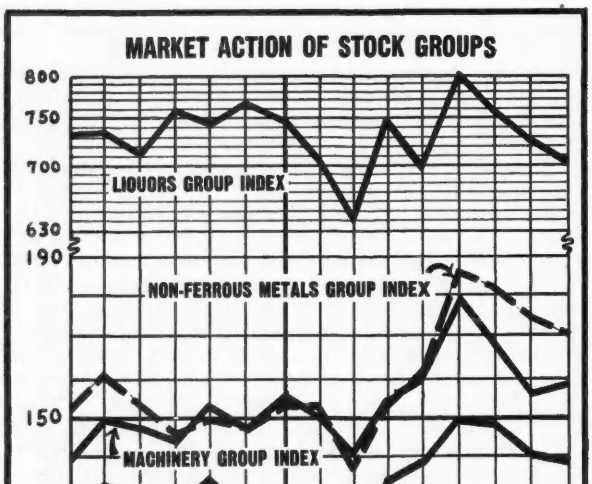
1948 Special Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Metals and Metal Fabricators, Machine Tool Shares, Rail Equipments, Liquors and Movies

Part IV

American business entered the second half of the year in the hope that there will be no marked let-down in general economic activity this year. Within this broad premise, however, business is conscious of numerous cross currents affecting the outlook for various industries. In some lines, demand conditions are such as to assure continued high-level operations and earnings. In others, the return to buyer's markets creates increasingly competitive conditions while mounting consumer resistance to high prices is having similar effect elsewhere. Some industries will benefit from ERP and preparedness spending; others will not. Some face new shortages hampering production while others, better situated, can continue peak operations. All of which can vitally affect sales and earnings potentials.



To establish and maintain a constructive investment program under current and prospective conditions, close and continued scrutiny and interpretation of changing trends is a prime requisite. Only by recourse to reliable facts and trained judgment can the investor protect his position.

To assist our readers in arriving at sound investment decisions, The Magazine of Wall Street presents its Security Appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of all available information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

Divergent Earnings Trends For METAL Companies

By WARREN BEECHER

With every prospect that demand for copper, lead, zinc and aluminum will remain insatiable throughout the balance of the current year, 1948 sales by the leading mining concerns and fabricators should equal if not surpass the excellent showing of 1947. Individual earnings trends, though, are likely to vary, as already indicated by interim reports.

While practically all concerns can sell everything produced, rising costs and work interruptions have been curtailing profits here and there, and scant supplies of all non-ferrous metals are bothering many of the processors. Competition, too, has become increasingly keen among the fabricators, with a likelihood that some of the stronger units may gain ground at the expense of their less favorably situated rivals.

Such ample business, however, is in sight for the handful of well integrated and financially stalwart concerns dominating the copper field and the aluminum industry that their near term earning potentials are bright. Operating near the probable peak of a cycle where they enjoy record peacetime demand from utilities and manufacturers of practically all types of durable goods, along with sizable Government orders now likely to enter the picture, volume problems are minimized. Under such circumstances, firmer pricing policies that should benefit the mining concerns are now being implemented, but how well the fabricators can absorb recently advanced prices for metals all along the line remains to be seen.

How tight the supply of non-ferrous metals currently is can best be established by discussing some of the more important ones individually. Take copper, for example, of which world output will hardly exceed 2.5 million tons in 1948. According to the Department of Commerce, domestic demand in the fiscal year to end July 1, 1949 is expected to require about 1.38 million tons without taking into consideration needs for the rearmament program or for Government stockpiling. Since the maximum output of our domestic mines during the period will be only about 875,000 tons and recoveries from scrap copper may add only enough to bring the total available supply to around 1 million tons, we will have to rely upon imports to make up the deficiency. Trouble is, though, that the combined output of Latin-American, Canadian and South African mines will not be adequate to meet our requirements in full, for their other foreign customers have to be taken care of. Consequently we can count on imports no higher than about 300,000 tons of raw copper and another 150,000 tons of the refined metal, the latter item being more than offset by exports of 170,000 tons that we will have to supply from our own resources. On balance, Secretary Sawyer of the Department of Commerce foresees a deficit of around 100,000 tons.

More Aggressive Stockpiling

To make matters still tighter, the Munitions Board has just announced its decision to start aggressively the stockpiling of copper, a step it has long delayed through fear of hampering industrial activity. It plans to acquire 30,000 tons to be delivered at an approximate rate of 2,500 tons monthly until June, 1949. Measured by total domestic consumpton this may not seem a very significant spur to demand, but in view of the already tight situation, its impact may carry considerable weight. Furthermore, the 1948-49 Federal budget makes possible the acquisition of up to $285 million worth of non-ferrous metals, and an additional $375 million is being requested for long term contracts with domestic and foreign suppliers.

As a result of changing conditions during the first half of the year, copper prices have by degrees risen

Financial Data on Non-Ferrous Metal and Metal Fabricator Stocks

	Net Current Assets —($ million)—	Inventories	Net Per Share 1947	Net Per Share 6 mos.'48	Div. 1947	Recent Price	Div. Yield‡	Price-Earnings Ratio†	Investment Rating	COMMENTS
Aluminum Co. of Amer. X	$122.8	$92.7	$5.64	....	$2.00	$59	3.4%	10.5	B1	Fully integrated and largest domestic producer in field. Record demand and firmer prices assure dividend stability.
American Metal, Ltd.	29.0	22.8	3.84	$1.31	2.25	32	7.0	8.3	B2	Mexican strikes restricted first half year earnings but outlook favorable and company's entrenched smelting business should support liberal dividends.
American Smelting & Ref.	109.6	75.6	12.70	5.18	5.00 b	59	8.5	4.6	B3	Current status mixed by strikes but higher prices should bring better earnings in second half and there is probability of year-end extra dividend.
American Zinc, Lead & Sm.	8.6	8.3	.98	.46	.20	7	2.9	7.1	C3	Operates smelters and low grade ore deposits. Fairly stable earnings possible under current conditions and conservative dividend probably secure.
Anaconda Copper W	198.2	92.9	5.02	3.00	3.00	38	7.9	7.5	B2	Both mining and fabricating divisions are making excellent profits. The dividend is well secured and chances for a year-end extra are good.
Anaconda Wire & Cable	19.1	12.7	10.05	3.98	6.25	36	17.4	3.6	C+3	High copper prices creating some resistance among users of company's fabricated products, but earnings should continue at very satisfactory level. Dividend seems stable.
Bridgeport Brass	18.7	16.2	1.19	.82	.90	10	9.0	8.4	C+3	Rising costs of finished and semi-finished products harve held earnings to slightly lower levels but improvement possible during balance of 1948. No dividend probable.
Cerro de Pasco Copper	12.3	8.3	2.61	....	2.00	24	8.3	9.2	B1	Some relief from heavy Peruvian imposts may benefit 1948 earnings and increased output may expand sales. Reduced dividend of 37½ cents quarterly likely to hold.
Climax Molybdenum	21.1	5.0	.97	.46	1.20	15	8.0	15.4	B2	Dominant producer of molybdenum. Strong finances may assure dividend stability but higher costs are restricting profits slightly.
Driver-Harris	1.5	2.3	4.39	2.77	3.00	37	8.1	8.4	B1	Manufacturer of nickel products. First half year earnings trended upward and rather liberal dividend policies likely to continue.
Eagle Picher	16.4	9.4	4.05	2.10	1.50	21	7.1	5.2	C+2	Strikes and scant supplies of purchased lead and zinc have reduced sales but dividend probably secure on 45 cents quarterly basis.
Fansteel Metallurgical	5.1	3.8	.71	....	.25	11	2.3	15.4	B1	Refiner of rare metals and maker of alloys. Earnings outlook uncertain as only tax credit prevented deficit last year. Small dividend possible in December.
General Alloys	.2	.1	def.11	....	Nil	2	....	....	C3	Producer of heat and corrosion resistant castings. Drab earnings and absence of dividends lend only speculative aspects to shares.
General Cable X	21.1	8.4	2.79	.94	.50	12	4.1	4.3	C3	Lower shipments and increased costs tending to reduce near term profit potentials. Reduced dividend of 25 cents quarterly, though, may continue.
Howe Sound	7.3	1.1	3.15	2.22	2.00	41	4.9	13.0	B1	Higher prices for lead and zinc suggest earnings uptrend in current year, following rise in first half year. 50 cents quarterly dividend seems secure.
Hudson Bay Min. & Smelt.	28.9	11.9	4.65	2.75	3.00	44	6.8	9.4	C+1	Operates low cost zinc-copper deposit in Manitoba. Firm prices should benefit earnings, as trend in first half reveals. Liberal dividend indicated.
Inspiration Cons. Copper	8.5	2.0	3.93	1.70	2.25	20	11.2	5.1	C+2	Dependent upon low grade ore bodies in Arizona, but high copper prices promise good earnings for a while. Dividend unlikely to change.
International Nickel X	144.1	53.9	2.17	1.36	2.00	31	6.5	14.2	B1	Large production of copper in addition to world's largest output of nickel bringing improvement in earnings. Extra dividends probably in sight.
International Silver	17.0	10.4	14.98	9.12	6.00	63	9.5	4.2	A1	Largest fabricator, with continued uptrend in sales and earnings. Liberal dividends swelled by $1 extra payable in September.
Kennecott Copper W	252.4	54.9	8.49	4.46	4.00	58	6.9	6.9	B1	Among lowest cost copper miners and with substantial fabricating facilities. Rise in copper prices indicates increased earnings and continued payment of extra dividends.
Magma Copper	5.9	2.0	2.47	1.05	1.00	20	5.0	8.1	C+3	High cost operations are likely to preclude significantly better earnings though rise in copper prices a favorable factor. Small dividend probably safe.
Miami Copper	11.2	4.8	4.36	1.56	1.75	17	10.3	3.9	C+3	Marginal copper producer, with increased copper prices likely to hold earnings at fair level for a time. Conservative dividend seems stable.

‡—Based on 1947 dividends.
†—Based on 1947 earnings.
a—3 months June 30.
b—Plus 20% stock.
c—Plus 10% stock.
c—5 months May 31.
n.a.—Not available.

to a 19-year peak of 23½ cents per pound, the latest boost of 2 cents having occurred in recent weeks. Since the new price level compares with a wartime ceiling price of 12 cents, it can be envisaged that profit margins of the leading producers have been well sustained despite sharply higher wage rates. The situation is somewhat complicated, though, by the integrated operations of several large mining concerns with fabricating subsidiaries. Brass mills controlled by Anaconda, Kennecott and Phelps Dodge (American Brass, Chase Copper and Phelps Dodge Copper Companies respectively) are estimated to account for about 65% of total domestic sales. The same thing is true of wire mills controlled by these leading mining concerns.

The stiff prices now being obtained for refined copper point to a possible uptrend in net earnings for the leading copper miners during the second half year, including low cost producers as well as high cost miners that have had difficulties in achieving profit gains since the elimination of Government subsidies about a year ago. About two-thirds of the representative concerns listed on an appended table showed improved earnings for six months compared with a year ago, the moderate downtrends for the other third being confined mainly to fabricators. Since of total manufacturing costs in the fabricating units, raw materials currently account for a record proportion of more than 50%, the question arises whether the firmer copper prices will not further narrow profit margins in this division.

Light Metal Competition

In a highly prosperous period such as the present, producers and fabricators of copper suffer little from competition of the lighter metals. The spectacular strides achieved by the aluminum industry in postwar, though, seems to have created a serious threat in appraising the long term situation. Aluminum has edged in on a long list of markets formerly dominated by copper, may hold many of them permanently and currently is achieving record peacetime sales and earnings for its producers and fabricators.

Since VJ-Day the demand for this light metal has increased to a point far in excess of earlier estimates, reaching proportions only a little short of the peak attained during World War II. Though production is now running at the rate of 1.3 billion pounds annually, or four times the average of prewar, the Aluminum (*Please turn to page* 658)

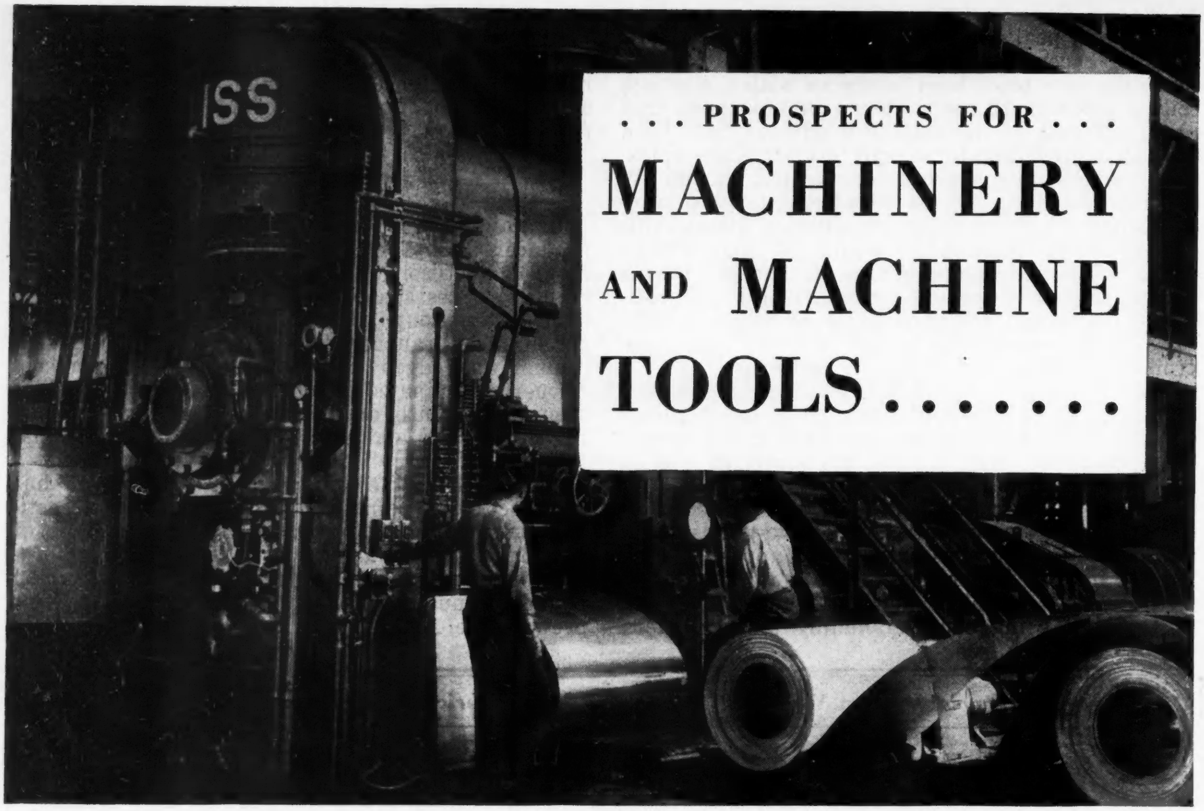
Financial Data on Non-Ferrous Metal and Metal Fabricator Stocks (Continued)

	Net Current Assets —($ million)—	Inventories	Net Per Share 1947	6 mos.'48	Div. 1947	Recent Price	Div. Yield‡	Price-Earnings Ratio†	Investment Rating	COMMENTS
Mueller Brass X	7.8	7.2	4.20	1.81	1.50	19	7.9	4.5	C+3	Fabricator well entrenched in trade and enjoying earnings above average though less than last year. 1948 dividends of $1.50 may be supplemented by extras.
New Jersey Zinc	n.a.	n.a.	4.21	2.13	4.50	67	6.7	16.0	B2	Largest producer of zinc, with 1948 earnings likely to approximate those of 1947, despite strikes. This year's dividends should equal those of the previous year.
Ohio Brass "B"	5.1	3.5	5.88	....	3.00	45	6.7	7.7	C+1	Diversified output resulting in good sales and earnings. Strong financial position and liberal dividend policies lend attraction to shares.
Phelps Dodge W	73.4	30.9	8.64	4.87	4.20	55	7.6	6.4	B1	Second largest domestic copper producer and important fabricator. Increased production and sales at firm prices favor prospects or year-end extra dividend.
Revere Copper & Brass X	27.2	20.0	5.93	2.36	1.00	17	5.9	2.9	C+3	Somewhat lower sales probable for 1948, with earnings slightly reduced by absence of inventory profits. Conservative dividend not likely to change.
Reynolds Metals X	37.7	26.9	2.68	2.60	1.00 c	24	4.2	8.9	C+1	Heavy demand for aluminum and other metal products at high prices benefitting earnings. $1 quarterly dividend amply earned.
Rome Cable	3.9	3.6	2.83	.55 a	.67	10	6.7	3.5	C+3	Well established manufacturer with earnings currently somewhat reduced by competition and high costs. The 15 cents quarterly dividend appears entirely safe and a year-end extra is possible.
St. Joseph Lead X	23.8	6.7	6.48	3.01	3.00	53	5.7	8.2	B2	Excellent earnings reported for 1947 may be equalled in current year unless work stoppages prevent. Dividend improvement quite possible.
Scoville Mfg.	25.1	18.9	3.70	1.39	2.00	29	6.9	7.8	B3	Broad diversification of output has served to stabilize long term earnings. Dividends paid since 1856. Current earnings satisfactory though slightly less than in 1947.
U. S. Sm., Ref. & Min. W	3.00	48	6.2	9.4	C+3	23.4	11.2	5.11	1.39 e	Operates lead, zinc, gold and silver mines. Higher costs adversely affecting earnings but no change in dividend expected.
Vanadium Corp. of Amer.	7.8	4.8	1.17	....	Nil	21	....	18.0	C+1	Owns world's largest deposit of vanadium in Peru, processing the metal in the United States. Improved earnings have warranted payment of 25 cents quarterly dividends thus far in 1948.

‡—Based on 1947 dividends.
†—Based on 1947 earnings.
a—3 months June 30.
b—Plus 20% stock.
c—Plus 10% stock.
e—5 months May 31.
n.a.—Not available.

. . . PROSPECTS FOR . . .

MACHINERY AND MACHINE TOOLS . . . .



By H. F. TRAVIS

With industrial expansion and modernization still at high level, manufacturers of heavy machinery should achieve earnings for the full year 1948 at least as favorable as those of last year. To judge from reports for the first half, producers of machine tools have fared less well, but signs are appearing that the second half may prove more favorable for some concerns in this division. On the whole, the conservative dividend policies characteristic of this industry should assure stable payments for the balance of the year, with prospects of occasional extras in the fourth quarter.

The Federal Reserve Board's index of machinery production reached a record peacetime high of 285 in the first quarter of 1948, indicating that for the group as a whole, gains by the makers of industrial machinery should more than offset laggard progress by the machine tool builders for the entire year. Specialty concerns for the most part seem to be holding sales and earnings fairly close to figures for the previous year. During the current quarter, earnings of all sectors in the industry may develop a slightly downtrend, due to plant closings for vacations, but thereafter they are apt to spurt upward. The final quarter is usually the best for the group and if no serious operating difficulties develop, should round out another fairly good year for most of the concerns, with some reporting increased sales and profits.

Backlogs orders are holding at record levels for a number of makers of capital goods. Equipment builders for the oil, steel, mining and textile industries are facing a demand that should continue unabated for several years to come. With estimates that all domestic industries will spend around $9 billion during the second half for plant and equipment, the proportion allotted for machinery and tools is bound to be substantial. Road building, too, along with excavating and public works embracing sewage disposal and the like seems headed for greater activity, while the utilities are greatly broadening their demand for electrical machinery.

As regards export demand, this promises to continue substantial for a number of years to come, the only barrier to large shipments being the scarcity of American dollars abroad. ECA not long ago estimated foreign machinery needs across the Atlantic at more than $1 billion through June 30, 1949. Despite delays in implementing the program exports of industrial machinery rose 2.5% in the January-May period of 1948 and it looks as if total exports this year will be closely comparable to the record $1.3 billion of 1947. Aside from Europe, some Latin-American countries are importing peak amounts of textile machinery from American sources.

Safe Backlogs Despite Rising Prices

Manufacturers of heavy machinery requiring custom-built specifications with protracted delays in construction have protected themselves widely by escalator clauses in their contracts, for far higher prices for steel do not appear to deter buyers of industrial machinery from placing orders at correspondingly advanced quotations. Hence makers of these items are lifting volume in the current year and as a rule succeeding in widening profit margins on the enlarged sales. Shortages of raw materials and possible work interruptions present potential barriers, though, to well sustained progress in production.

*Position of Leading Machinery Stocks**

	Net Per Share 1946	Net Per Share 1947	Net Per Share 6 mos. 1948	Div. 1947	Div. Yield‡	Recent Price	Price-Earnings Ratio†	Investment Rating	COMMENTS
American Mach. & Foundry	$1.05	$1.77	$1.02	$ .80	5.0%	$16	9.0	C+1	Dominant producer of special machinery for tobacco and baking industries, with additional diversification. No change in dividend expected.
Babcock & Wilcox X	2.94	10.06	7.44	3.50	5.3	66	6.5	C+1	Prominent boiler makers achieving substantial sales and earnings. Large backlog. Fair chance of year-end extra dividend.
Blaw-Knox	2.49	2.23	1.33	1.10	6.5	17	7.6	C+1	Makes specialty steel products through nine divisions. Sizable backlog assures near term high volume and fair earnings. Dividend secure.
Bliss, E. W. X	1.70	3.11	4.87	1.00	7.1	14	4.4	C+1	Largest manufacturer of mechanical presses. Good uptrend in full year earnings indicated. Conservative dividend amply earned.
Bucyrus Erie	2.08	3.81	1.63	1.50	7.5	20	5.3	C+2	Leading maker of excavating machinery, with substantial backlog, large sales and good earnings. Capital needs may preclude dividend improvement.
Buffalo Forge	3.56	8.09	3.76	4.45	12.0	37	4.6	C+3	Volume and earnings holding near favorable 1947 levels. Declaration of a year-end extra would not be surprising. September dividend lifted to 60 cents.
Bullard	1.14	def.30	.33	Nil	....	18	....	C+1	Leading producer of machine tools with prospects enhanced by elimination of Government surplus stocks. Resumption of dividends obscure.
Caterpillar Tractor X	3.25	5.29	1.48 c	3.00	5.3	57	10.8	B2	Principal maker of track type tractors. Strikes reducing earnings this year but uptrend now probable. Stable dividend indicated.
Chicago Pneumatic Tool X	5.01	10.41	5.07	3.50	10.3	34	3.3	C+2	A leader in special field. Volume and earnings rather steady compared with year ago. 1948 dividends should equal 1947.
Cooper-Bessemer	def.54	7.55	5.03	.50	1.7	29	3.8	C+1	Successful maker of gas, oil and diesel engines. Increased sales and earnings likely in 1948. Conservative dividend not likely to change.
Evans Products	3.08	6.52	1.24	1.25	8.9	14	2.1	C+3	Earnings satisfactory though under last year's peak. Diversified output a favorable factor. Dividend safe and increased liberality possible.
Ex-Cell-O	3.03	5.23	3.11	2.60	6.2	42	8.0	B1	Uptrend in sales of diverse products indicated, aided by ERP and Defense Program. The 65 cents quarterly dividend appears secure.
Fairbanks Morse X	5.14	7.05	4.65	2.50	5.4	46	6.5	B—1	Expanded facilities proving beneficial. Uptrend in volume probable but rising cost may restrict earnings gains. 1948 dividends should equal those of last year.
Food Machinery & Chem. X	3.21	4.49	2.85	1.00	2.6	38	8.5	A1	Aggressive producer of fruit and vegetable processing machinery, with marked growth record. No immediate rise in dividends expected.
Foster Wheeler	.10	3.30	4.40	1.00	2.8	36	10.9	C+1	Leading manufacturer of boiler and refinery equipment. 1948 sales and earnings should improve, but no change in conservative dividend rate anticipated.
Greenfield Tap & Die	4.70	3.33	1.52	1.20	8.6	14	4.2	C+2	Long established maker of cutting tools. Absence of competition from Government surplus may bring 1948 earnings close to last year. Dividend safe.
Ingersoll Rand	4.64	8.03	2.41	4.50	6.3	72	9.0	A1	Important supplier of machinery for oil and construction industries. Outlook favorable. Liberal dividend policies indicated.
Joy Manufacturing X	3.29	8.52	5.50	2.10	5.7	37	4.3	C+2	Sharp upturn in orders for mining machinery points to larger net earnings during current year. Dividends should continue at 60 cents quarterly.
Link Belt X	5.50	8.68	6.16	3.00	4.6	65	7.5	B1	A leading producer of heavy machinery and conveying equipment. Large backlog enhances outlook. 1948 dividend payments should compare well with year earlier.
Mesta Machine	2.56	3.03	....	2.50	6.1	41	13.6	C+1	Expansion by steel industry benefitting this specialized maker of steel producing machinery. Liberal dividends probable.
Monarch Machine Tool	3.23	3.46	1.21	2.00	8.0	25	7.2	C+2	Somewhat reduced sales and earnings probable this year but no variation in 50 cents quarterly dividend expected.
National Acme	5.23	4.41	1.34	2.50	10.0	25	5.7	C+3	Maker of automatic machine tools and similar specialties. Slackened demand tending to reduce earnings but 50 cents quarterly dividends seem safe.
Niles-Bement-Pond	def.06	1.23	....	.60	6.0	10	8.1	C+2	A leading producer of precision instruments and machine tools. Little variation in operating results probable during 1948. Small dividend indicated.
Starret, L. S.	7.78	7.29	....	3.00	7.5	40	5.2	C+2	Well sustained earnings in 1948 expected. Company makes precision tools. Strong finances bolster expectations of dividend stability.
United Engineering & Fdry.	1.46	4.12	2.32	2.00	4.7	43	10.4	B1	Specialized producer of heavy rolling mill machinery. Higher earnings in current year. Ample assurance of steady dividend payments.
U. S. Hoffman Machinery	7.31	3.26	.65	.75	6.8	11	3.4	C+3	Manufacturer of laundry machinery experiencing downtrend in demand. But conservative dividend should not be endangered.
Van Norman Co.	2.97	2.60	1.69 e	1.40	10.8	13	5.0	B2	Despite smaller demand for milling machines and cutting tools, diversified output should help to stabilize earnings. 25 cents quarterly dividend secure.
Waukesha Motor	1.53	4.54	2.48 f	1.25	6.9	18	4.0	B—3	Important producer of combustion engines. Satisfactory earnings expected, with ample coverage of dividend.
Worthington Pump & Mach. X	3.53	5.86	2.49	.67 b	3.4	20	3.4	B2	Large backlog orders suggest continued heavy volume. Rising cost may trim earnings moderately but 25 cents quarterly dividend seems entirely safe.

*—Figures adjusted for stock splits and stock dividends.
‡—Based on 1947 dividends.
†—Based on 1947 earnings.
b—Plus 10% stock on old stock.
c—7 months July 31.
e—Period July 19, 1947 to July 17, 1948.
f—9 months April 30.

Most manufacturers of machine tools have been passing through a rather discouraging period due to heavy competition and downtrending sales. Reduced earnings and even deficits have marked their record here and there. In part this was due to the blight of bargain prices tagged on huge quantities of Government surplus tools, partially because of restricted exports and increasingly satisfied domestic demand. During the early part of this year, though, business in this division showed signs of improvement and production on an over-all basis held fairly steady compared with the previous year. Exit of the Government from competitive markets eased the situation considerably and the development of some 200 ultra-modern tools tended to stimulate sales.

Tool Manufacturers at Half Capacity

A survey conducted by the National Machine Tool Builders Association a few months ago revealed that tool manufacturers as a whole were operating at only about 50% of capacity, or close to the 1947 rate of $307 million annually. Producers of some tools were running at a rate of only 25% but the makers of lathes were making a far better showing. Similar variations were characteristic of other divisions. On the whole, most of the machine tool manufacturers had backlogs at midyear equal to about three months production and reported orders coming in at a rather encouraging rate.

Given a few months more time, the machine tool builders are likely to emerge from their recessive status. The defense program seems certain to spur the demand for up-to-date equipment and during the next few months an influx of orders from this source is expected. Some estimates of medium term orders originated by the program exceed $100 million. Besides this probable stimulus to the tool branch of the machine industry, ECA is expected to place some very large orders right after New Year, but hopes for earlier action are slim.

On the average, exports of machine tools have accounted for about 20% of total sales in past years and in 1947 the percentage rose to 26.6%, but during 1948 it dropped to around 10%. Shortage of dollars rather than declining demand accounted for this drop. Since the acquisition of modern machine tools will be a prime factor in European recovery, it is certain that means will be provided to make the necessary payments without prolonged delay.

Foreign Potentials under ECA

Under the ECA program, foreign buyers will be encouraged to place approved orders direct with American manufacturers after the exchange problems have been solved. What may be expected in the way of new volume is shown by reports that European customers are already frantically striving for confirmation of orders aggregating over $125 million for machine tools, but must await permission from ECA. Alexander G. Bryant, president of the NMTBA has left for Europe at the request of Washington to confer with ECA officials as to how necessary credit assistance can be furnished to these would-be buyers.

Reports that Russia has discussed a possible $48 million order for machine tools with a British firm have made headline news, but whether it can or will be accepted remains to be seen. The significance of this prospective order to American manufacturers rests mainly on political considerations that have shut the Russian market to our suppliers, provided the tools could be used in military production. The large size of the order, though, may indicate widespread pressure in all the satellite countries for tools to stimulate normal industrial expansion, and in the final analysis, Chairman Hoffman may find it advisable to land part of such business indirectly for American concerns. All depends upon the kind of tools requested and their potential end use.

While prospective large scale orders for export now brighten the outlook, the potentials of our domestic market alone in coming years are decidedly encouraging. Fact is that about 90% of tools used by industry are of prewar design and in many instances have been rendered obsolete by postwar technological developments. Now that manufacturing break-even points everywhere have soared to worrisome heights, it is natural to anticipate an abnormally well sustained demand for cost-saving devices. Hence the medium term problem of the suppliers should largely involve skill on the sales end. As the industry's Association is now claiming that the metal working industry could save up to 50% if it were fully equipped with modern machine tools, verification of the statement could lead to rather spectacular results for the tool builders.

Desire for Cost Savings

It appears to have taken the manufacturers of heavier and more expensive equipment ample time to prove the validity of cost savings by the use of up-to-date equipment. But now many specialists of this kind are literally swamped with large orders. These include heavy presses, pumps, power generating machinery and excavating units. So great is the demand for monster tractors, cranes and power shovels that deliveries are being accepted on a basis ranging from a year and a half up to three years. The road ahead in this field for leading concerns such as Caterpillar Tractor seems unusually bright.

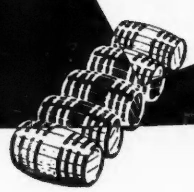
Among other specialized concerns making excellent progress and likely to see prolonged prosperity is Food Machinery & Chemical Corporation. This company has achieved marked growth by developing a long list of mechanical devices to speed the handling of agricultural products both on the farm and in the factory. Its recent merger with Westvaco Chemical will undoubtedly broaden its markets for insecticides, fertilizers and related items. To a similar degree specialization should continue to create good earnings for Worthington Pump and Dresser Industries, especially as the $2 billion expansion program of the oil industry will not be completed for several years.

All said, there are many elements in the machinery and tool picture that warrant confidence in the shares of well situated concerns. While it is true that the industry is more sensitive than others to shifts in economic activity, study of the record will reveal many companies that rapidly resumed profitable operations after 1932, for example. The large number of firms in the machine tool group renders them more vulnerable to highly competitive influences, but even here there are cases where average earnings and dividends appear about as satisfactory as many in industries rated as more stable.

From our table it will (*Please turn to page* 655)

WHAT'S AHEAD FOR THE LIQUORS

By GEORGE L. MERTON



The distilling industry seemingly has now entered a period when operations should be more stable than for several years past. Good grain crops assure ample supplies as Government allocations no longer enter the picture. Last year's problems of alternating over-stocked and under-stocked dealers have now been smoothed out. At long last there is promise of a coming balance in demand-supply factors involving aged whiskies, although another half year may elapse before its realization. But heavy competition and possible variations in public consumption are likely to develop divergent trends in the volume and earnings of some of the leading liquor producers.

Early this year, demand for distilled liquors by the consuming public declined about 9% below 1947 levels, but since then trade reports indicate a moderate uptrend from month to month. Opinion appears to differ whether this improvement will continue throughout the last part of the year, but with consumer incomes remaining high and the holiday season coming, the odds favor the optimists in this respect.

As has happened in some other luxury industries, however, high living costs are rather clearly reducing the amount of money that can be spent for distilled liquors. With a Federal tax of $9 per gallon and state taxes taking another $1.42 on the average, consumers are paying a very fancy price, undoubtedly too fancy for many purses under current conditions. The Federal Bureau of Internal Revenue, along with various local authorities, took in more than $3 billion through liquor taxes in 1947 for the second year in a row. This tells its own story as to sustained demand for liquors, despite a modest downtrend.

Stocks of aging whiskies in bonded warehouses rose above 500 million gallons in July, once more about equalling prewar proportions, but the supply of 4 year old material remains tight around 35 million gallons. Within the next ten months, though, 28 million more gallons will come of age, for the most part early in 1949, thus just about meeting the expected demand for 55 million gallons. During the second half of 1949, about 53 million gallons more will come of age, with an addition of 90 million gallons in 1950 and 110 million in 1951. Hence the industry before long will surmount the serious barrier it has faced since the early days of the war.

Through acquisition of other concerns in recent years, a limited number of distillers now control the bulk of our domestic business, and they are now girding themselves for an all-out competitive battle. It is thought that all of them in the current fiscal or calendar year will report sales and earnings closely comparable to the previous period. This foreshadows stable dividends, with prospects of greater liberality dimmed by heavy capital requirements to carry huge inventories, and consequently large debts. Likelihood of a coming price war is (*Please turn to page* 660)

Statistical Summary of Leading Distillers*

	Net Per Share 1946	Net Per Share 1947	Net Per Share Interim 1948	Div. 1947	Div. Yield	Recent Price	Price-Earnings Ratio	Investment Rating	COMMENTS
American Distilling	$11.70	$4.04	$2.80 9 mos. June 30	$3.00	8.1%	$37	9.2	C+3	Illinois distiller conducting profitable business. 1948 volume and earnings should vary little from previous year. Dividend probably secure.
Brown-Forman Distillers	9.74	6.89		1.00	7.7	13	1.9	C+3	Old established firm of high repute and well entrenched in trade. Strong finances. Dividend considered fully safe.
Distillers–Seagrams X	2.73	4.88	5.28 9 mos. April 30	.60	3.7	16	3.3	B1	Canadian concern with American branches. Achieved highest volume in industry last year. 1948 earnings in uptrend. No change in dividend likely.
National Distillers	5.01	4.57	1.40 6 mos. June 30	2.00	10.0	20	4.4	B3	Smaller orders from dealers early in year hampered progress but improvement now probable. No variation in 50 cents quarterly dividend expected.
Publicker Industries	11.10	1.99	1.03 6 mos. June 30	5% stock		22	11.0	B1	Diversified production enhancing growth but large inventories crowd working capital. Stock dividends rather than cash indicated for near term.
Schenley Distillers X	13.58	7.46	6.80 9 mos. May 31	2.00	6.6	30	4.0	A1	Uptrend in volume and earnings probable during current year, due to broad diversification and strong demand. Dividend amply earned.
Walker-Gooderham & Worts	5.28	6.54	7.57 9 mos. May 31	1.27	5.5	23	3.5	B1	Sales and earnings substantially on up grade. Raised 37½ cents quarterly dividends may be supplemented by occasional extras.

*Figures adjusted for stock splits and stock dividends

Pros and Cons in

RAIL Equipments

By H. S. COFFIN

Manufacturers of rail equipment, with very few exceptions, turned in encouraging earnings reports for the first half year. In scanning prospects for full 1948, the weight of evidence points to well sustained progress by all divisions of the industry, not only for the balance of the current year but for some time thereafter. Cross currents that could alter the outlook for individual concerns favorably or otherwise, however, enter the picture.

The nation's railroads are continuing to spend huge sums to modernize their rolling stock, trackage, signalling systems and motive power. Their capital expenditures last year aggregated $865 million, compared with $562 million a year earlier, and orders placed during 1948 have pushed backlogs of their suppliers to new heights. About 65% of expenditures are going for new locomotives, freight and passenger cars, with the balance allotted for roadway and structures. These generous outlays are spelling good business for the specialized units in the equipment industry, and as the railroad program is far from complete, high level activity seems in store for the indeterminate future.

Progress Towards Higher Volume

Not only economic considerations but defense problems as well increase the need for stepping up deliveries of new rail equipment on a broad scale, and despite scant supplies of raw materials, especially steel, the manufacturers have made some progress during the current year. Profits on the larger volume achieved, though, have generally been less than they should be normally, though an uptrend is now noticeable. Statistical evidence of this is revealed in the appended tabulation of 16 leading equipment manufacturers, all but one of which show steady advancing earnings during the first half year, with more than half on the upside. Operations, particularly involving rolling stock, have been increasingly improved as mass production methods came more and more into play, allocations of steel were more dependable, and plant efficiency was bettered. While standardization of freight cars has been a favorable factor in production schedules, wide variations in design of the modern passenger cars have curtailed profits generally in this division.

Within reasonable time, attempts to standardize the construction of passenger cars will probably succeed in cutting both costs and time of deliveries, for the railroads and manufacturers alike would gain if these proposals became realistic. As it is now, some passenger car producers like Pullman anticipate a lag of several more months before their custom-built passenger cars can swell profits, despite increased deliveries. The significant elimination of orders for steam locomotives in favor of diesel powered units has also created problems for manufacturers obliged to adjust their facilities and to figure how the new unit costs can be held within profitable limits. Signs are accumulating that good progress in this direction has been made.

During the first five months of 1948, freight car builders strove in vain to reach the desired monthly production goal of 10,000 units, although in theory, rated capacity was far in excess of this limit. Scant steel supplies accounted for the lag, though controversy over the claim has arisen. In June, freight car deliveries amounted to 10,387 units for the first time in many years but the Office of Defense Transportation gloomily predicted that in following months, shipments would slump again. This proved true in July but August results surprised everyone by topping 10,000 for a second time.

Heavy Retirement of Rolling Stock

Optimism over receipt by the railroads of substantial quantities of freight cars is tempered by realization of the number of worn-out units constantly being retired. During the first seven months of 1947, no less than 34,383 cars of this type became wholly useless through wear and tear, or 8,209 more than new acquisitions. In the corresponding period of 1948, on the other hand, the excess of deliveries over the retirements was about 32%, with 58,892 new cars put in service compared with disuse of 44,717.

As of August 1, all railroads and private car lines had on order 125,290 new freight cars against 117,267 at the same time in 1947. Despite larger shipments, accordingly, manufacturers' backlogs have continued to mount, and there are no signs of near term diminution. It should be realized, however, that the railroads themselves build about 2,000 cars monthly in their own shops, leaving approximately 8,000 for the commercial builders to account for. In the broad picture, the main point is that the railroads still have in service some 20,000 fewer freight cars than they had in 1944, regardless of record economic activity and a large increase in population. These brief facts suggest that the traditionally volatile equipment industry may experience prolonged prosperity in the current cycle.

Activities of the locomotive builders also continue to be stimulated by placement of large orders. As of August 1 this year, the Class 1 railroads had

1,628 new locomotives on order compared with less than half this number a year earlier. How the popularity of diesels has increased is shown by apportionment of 1,509 orders to this form of motive power against only 119 steam locomotives. The trend has led American Locomotive to concentrate entirely upon production of diesels, Lima to combine with Hamilton in line with similar policies, and Baldwin to sell a large interest in its business to Westinghouse Electric Corporation.

By gaining larger working capital and access to top engineering talent, Baldwin is now in position to accomplish better results in tackling a record backlog of around $120 million and to enhance its technological resources. ALCO is said to have a backlog of similar proportions, good for capacity operations for many months ahead. General Motors, through its Electro- (*Please turn to page* 657)

Position of Leading Rail Equiment Companies

	Order Backlog* ($millions)	—Net Per Share— 1947	6 mos. 1948	Div. 1947	Div. Yield‡	Recent Price	Price-Earnings Ratio†	Investment Rating	COMMENTS
American Brake Shoe	$27.0	$4.11	$1.74	$2.40	6.5%	$37	9.0	B2	Replacement orders lend stability to earnings. 1948 net likely to equal 1947. Dividend payments may improve.
American Car & Foundry X	253.0	3.47 c	....	3.00	7.1	42	12.0	C+1	Large backlog and enhanced efficiency point to moderate earnings uptrend. Medium term outlook favorable. Dividend amply earned.
American Locomotive	123.0	1.70	.89	1.65	7.5	22	12.9	C+1	Concentration upon diesel locomotives lifting earnings. Backlog orders assure well sustained operations. Dividend stability indicated.
Baldwin Locomotive	120.0	1.33	.82	1.00	6.7	15	11.2	B2	Purchase of sizable interest by Westinghouse strengthens fundamentals. Record backlog promises continued activity. No change in dividend probable.
General American Transp.	....	6.60	2.56	2.75	5.3	52	7.9	B2	Operates large fleet of tank and refrigerator cars, besides constructing for others. Prospects good and 75 cents quarterly dividends secure.
General Railway Signal X	....	1.41	1.30	1.00	4.5	22	15.6	B1	Uptrend in sales and earnings due to ICC ruling that obliges railroads to improve signal systems. Earnings amply protect dividends.
Lima-Hamilton	84.0	1.40	.91	.60 b	5.5	11	7.8	B1	Diversified production benefiting volume and profits. Capital needs for expanded output may hold dividends to current conservative proportions.
New York Air Brake W	....	6.20	2.90	3.50	9.5	37	6.0	B2	Expected upturn in second half year earnings fortifies dividend stability. Backlog assures large scale operations.
Poor & Co. "B"	....	2.41	1.42	1.50	11.5	13	5.4	C+2	Sharply expanded orders for track equipment strengthen earnings potentials for 1948. Ample coverage of conservative dividend probable.
Pressed Steel Car	....	.97	def.73	Nil	....	8	....	C+3	Serious operating problems likely to result in deficit for 1948, although substantial orders are on hand. No near prospect of dividend.
Pullman X	390.0	2.38	1.45	3.00	7.0	43	18.1	B1	Huge backlog assures record activities and probably improved earnings in current year. Large working capital could warrant year-end extra dividend.
Superheater	....	2.55	1.35	1.60	6.4	25	9.8	C+1	Well sustained high level volume should bring earnings for 1948 close to last year. Dividend secure with possibility of extra payments.
Symington Gould	....	.15	.47	.25	4.2	6	40.0	C1	Demand for castings sustaining volume but high costs do not permit wide profit margins. Modest dividend probably safe.
Union Tank Car	....	4.23	....	2.50	7.4	34	8.0	B2	Operates the largest tank car fleet. Stability of satisfactory earnings suggests good chance for year-end extra.
Westinghouse Air Brake W	67.4	4.22	2.50	3.00	8.1	37	8.8	A1	Leading producer of airbrakes and signalling equipment, with enviable earnings and dividend record. Probable year-end extra in sight.
Youngstown Steel Door	....	2.54	1.67	1.00	5.9	17	6.7	B1	Large backlog and good cost controls point to well maintained high volume and earnings. A near term extra dividend not unlikely.

‡—Based on 1947 dividends.
†—Based on 1947 earnings.
*—Latest indicated.

b—Announced annual rate.
c—Fiscal year 1948.

Photo by Paramount

. . . . *Another Look at* . . . .
The MOVIES

By C. F. MORGAN

The accumulation of handicaps still bearing down upon the motion picture industry clouds its near and medium term potential progress. Managerial efficiency of the major concerns is being put to a severe test in combatting half a dozen tough problems that have arisen within the last year or so and produced a downtrend in earnings.

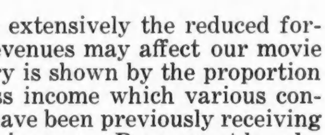
In combination, these difficulties create a broad range of uncertainties that will require considerable time for clarification. The strong finances and proven resourcefulness of the leading movie concerns, however, suggest that their current share prices may have amply discounted troubles on the road ahead.

At the outset, it should be realized that the abnormally lush earnings of the industry during the 1942-47 period established a very high base for comparison in considering recent results. Under the stimulus of a sharp uptrend in national income during and following the war, net earnings of four leading movie producers soared to about 5½ times the 1939 level for a peak in 1946, and in 1947 were still more than fourfold. Though earnings were sharply reduced during the first half of 1948 for all the producers in the industry, occasioning lowered dividends by Twentieth Century-Fox, Universal and RKO, this does not necessarily herald a long continued downtrend to dismal depths, despite a probable further drop before a levelling off process begins. If some of the strong concerns are successful in cost savings plans now under way, earnings are likely to warrant distribution of conservative dividends.

Effective October 1, the British Government will tighten restrictions upon foreign films exhibited by lifting their own dometsic quota to 45% compared with 17% established in 1947. There is a question, though, whether British producers can manufacture enough new pictures to supply their theaters with requirements on this higher basis. Regardless of the stiffer rule, American concerns will be allowed to withdraw an aggregate of $17 million annually from accumulated earnings for proportionate division among themselves. Furthermore, our domestic picture concerns threaten to ship no Class A films to England hereafter unless permitted to show two pictures where a British theater uses double features. While give and take bargaining still clouds the outlook, beyond much doubt foreign revenues of American concerns will be drastically reduced for a considerable time to come, for aside from England, many foreign countries are swamped with exchange problems.

How extensively the reduced foreign revenues may affect our movie industry is shown by the proportion of gross income which various concerns have been previously receiving from this source. Paramount has derived only 10% from foreign sources, but the scale rises with R-K-O—15%, Twentieth Century-Fox—17%, Loews—20%, while Universal and Columbia, with no theater chains to swell revenues, have depended upon probably 40%. In the current year the impact of this adverse factor has been increasingly felt all along the line.

More importantly, perhaps, theater attendance everywhere has declined as higher living costs have continued to pinch family incomes. The extravagantly priced first run pictures have suffered most severely, and it seems clear that multi-million dollar productions will no longer be featured. During the current year, every picture concern of importance has trimmed its expense budget in a startling manner,



lopping off from $500,000 to more than a million dollars from earlier estimates for new films. These economies, however, cannot be fully reflected by more stable profit margins until 1949. This is because the reduced amortization charges effected will not come into play until the pictures are actually released. Meanwhile the producers of last year's high cost pictures are still struggling to charge them off against sharply lower revenues, with prospects that second half year earnings will be adversely influenced by this factor. It will be recognized, however that substantial relief will come after the turn of the year.

Additionally, the picture producers are combatting high operating costs as never before by cutting down their highly paid armies of specialists and rank-and-file, at the same time using simplified sets and reducing shooting time. Due to the haphazard and extravagant practices formerly in vogue throughout the movie industry, such goals should be easier to reach than in any other form of enterprise, and without lowering the real quality of pictures. This lends encouragement to the hope that the industry can overcome many of its traditionally excessive production costs if it has the will, for the way assuredly is wide open. That such determination is being broadly expressed is now very evident.

One factor that has discouraged investors in movie shares has been the step by Attorney General Clark to enforce segregation of the picture producers from their large theater chains. Some time must elapse before this suit can be decided by the Supreme Court. The prospect that an adverse decision might be forthcoming is naturally disturbing to the well integrated units of the industry, for their theater revenues proved highly stabilizing to income, sometimes acting as an offset to actual production losses.

Soberly viewed, though, this situation does not warrant undue pessimism, for if divestment of theater interests become a fact, shareholders in the parent concerns would merely be allotted their proper share in the pie, or if the theaters were sold for cash, a substantial value over book values might be realized. But left with total dependence upon production, producers might have to revise their budgets downward in order to survive.

Video Competition

Another disturbing element that seems to have entered the equation is the rapid onward march of television. With sales of video sets now limited only by restricted facilities for producing parts, there is ground for uneasiness as to the eventual impact of competition from this source. When hundreds of new television stations are established and millions of home owners can both see and hear a wide variety of entertainment by the fireside, the urge to attend movie theaters rather naturally may lose intensity. Not to be overlooked, though, is the fact that practically all of the larger film producers are fostering the development of television, for their own pictures can be readily televised, thus broadening their distribution facilities on a wide scale. On balance it is quite possible the movie industry may turn out to be gainer rather than loser in this interesting competitive struggle now (*Please turn to page* 659)

Statistical Summary of Leading Motion Picture Companies

	Net Per Share 1946	Net Per Share 1947	Net Per Share Interim 1948		Div. 1947	Div. Yield‡	Recent Price	Price-Earnings Ratio†	Investment Rating	COMMENTS
Columbia Pictures	$5.22	$5.33	$ .98	39 wks. March 27	$1.00 c	10.0%	$10	1.9	C+3	Reduced foreign revenues cloud earnings potentials, as company owns no theaters. Outlook not bright and dividend payments uncertain.
Loew's, Inc.	3.66	2.26	.92	42 wks. June 3	1.50	8.8	17	7.5	B3	Fully integrated concern with exceptionally stable earnings record. Current downtrend in earnings makes dividend not too secure.
Paramount Pictures	5.27	4.46	1.96	6 mos. July 3	2.00	8.7	23	5.2	B3	Lower earnings probable but operating economies may cushion drop. 50 cents quarterly dividend seems safe for balance of year.
Radio-Keith-Orpheum	3.17	1.30	.49	26 wks. July 3	1.20	15.0	8	6.1	B—3	Well integrated producer and exhibitor now controlled by Hughes interests. Despite economies, prospectively lower earnings may reduce dividends.
Republic Pictures	.40 b	.09	.02	6 mos. April 26	Nil	......	3	33.3	C3	Relatively small producer facing reduced revenues and profits. October preferred dividend passed, and common dividend remote.
Twentieth Century-Fox	7.91	4.81	2.37	26 wks. June 26	3.00	14.3	21	4.4	B3	A strong concern with earnings in recent downtrend, but still sufficient to support conservative dividend.
Universal Pictures	5.32	3.11	.12	6 mos. May 1	2.00	20.0	10	3.2	C+3	Release of several profitable pictures this year holding earnings at satisfactory level, though earlier poor results will reduce net for year. Dividend appears secure.
Warner Brothers	2.62	3.03	1.41	9 mos. May 29	1.50	13.6	11	3.6	B3	Fully integrated and financially strong unit, with current outlook favorable if new pictures prove popular. Current dividend rate of 25 cents quarterly should be maintained.
Technicolor, Inc.	.48	1.56	.96	6 mos. June 30	1.00	7.1	14	9.0	C+1	Strong demand and substantially increased output creating uptrend in earnings. Greater dividend liberality possible.

‡—Based on 1947 dividends.
†—Based on 1947 earnings.
b—48 weeks ended October 26.
c—Plus 2½% in stock.

FOR

PROFIT

AND

INCOME

Trend

The Dow industrial average has been in a zig-zag downward formation—a succession of lower tops and bottoms—since June 15; the rail average since July 14. The best rally lasted only a little over three weeks. Dow-Theory people figure that the summer highs of 193.16 and 64.95 for the two averages were bull-market highs, which makes all previous downside reference points meaningless. Therefore, they can, and probably will, get "confirmation" of a new bear market while the averages are still much above their lowest 1946-1947 levels which were, roughly, 163 for industrials and just under 46 for rails, However, the Dow-Theory method, workable at times, has been uncommonly futile on the broad, but not sustained, swings of the past two years or so. This column thinks that we still have a floundering, trading-range market; that a surpassing of the summer highs within the next six months is not a good bet; that it will take either war or convincing evidence of business recession to break the old lows of 163 and 46 in the averages.

Omens

The gradual tightening of credit means that the only question about the high-grade bond market is whether it will hold near present levels or work lower. Preferred stocks, on an average, are very close to 1948 lows, which were under both 1946 and 1947 lows. Bank stocks and operating utilities are still nearer the 1948 highs than lows, but the range in both has been narrow for some time. Conditions, at least on the surface, in the automobile and steel industries were never more bullish, yet such barometric common stocks as General Motors and U. S. Steel are unable to act significantly better than the general market. Most of the investment and speculative "omens," in short, although not positively bearish, are more bearish than bullish.

Waste

Like everyone else, the writer of this column feels much happier when circumstances permit taking an optimistic view of the market outlook. It therefore pains us to see bullish news being wasted, in the sense that the market ignores it. When General Motors raised its dividend, the market, in effect, said "So what'" When General Electric more recently boosted its rate from a $1.60 to a $2.00 annual rate, the market again declined to cheer. According to the Department of Commerce, building activity in August broke all former records; but the building stocks continue to perform somewhat worse than the industrial average. And so it goes. The boom continues — but investors never for more than a short while put aside doubts as to how much longer it will last. In a way, maybe it would be a good thing to have the long-awaited recession and get it over with. It is about as clear as anything can be that any further good news on business, earnings or dividends will make no significant difference to the market. But there is every reason to suppose

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Bendix Aviation	9 mos. June 30	$3.32	$2.19
El Paso Natural Gas	12 mos. July 31	6.37	4.70
Intl. Minerals & Chemical	Year June 30	5.85	4.35
Kayser (Julius) & Co.	Year June 30	3.67	3.50
Lakey Foundry & Machine	9 mos. July 31	1.84	1.75
Motor Products Corp.	Year June 30	7.33	4.78
Myers (F. E.) & Bro.	9 mos. July 31	6.19	4.94
Pittsburgh Metallurgical	Year June 30	1.60	.53
Soss Mfg.	6 mos. June 30	1.25	1.00
Timken Roller Bearing	6 mos. June 3	3.15	3.04

that the eventual bad news will, despite the very considerable psychological preparation which has been made for it by the uncommonly long period of caution, doubt and questioning.

Arrears

For nearly eight years (1941-1948, inclusive) it has been relatively easy to sell almost anything which could be made. In each of these years total corporate profits have been above those of 1929. Last year they were, and this year they will be, over double the 1929 level. It should not need to be emphasized, under these circumstances, that where there are still arrears on preferred stocks there is something the matter with the companies involved. This is not said in criticism of the management. Perhaps old misfortunes, or mistakes, were so great that it will take longer than eight years of good profits before preferred stockholders get paid what is due them. Among preferred stocks listed on the New York Stock Exchange, or the Curb Exchange, there are still about 60 on which there are arrears. A large percentage of them are utility holding companies. There are not a great many industrials left. Some of the best-known of them, all quite speculative, and the amount of the arrears per share are: Curtis Publishing $7 preferred, $59.50; Long-Bell Lumber $5 class A, $79.29; Bush Terminal Buildings $7 preferred, $54; General Steel Castings $6 preferred, $57.75; Minneapolis-Moline Power Implement $6.50 preferred, $31.12; and Pittsburgh Steel $5 preferred, $53.75 and $7 preferred (same company) $120.75.

Selections

Curtis Publishing ought to be able to pay the regular $7, plus substantial cash payments against arrears in nearby years, and eventually clear the latter without a recapitalization. The stock is priced, at this writing, around 142. Minneapolis-Moline $6.50 perferred is now priced around 118. The chances are that arrears of $31.12 a share will be cleared by a recapitalization in the not distant future. We have previously cited the common stock of this company as a speculation on this recap. The word "speculation" is used advisedly, for there is never certainty that a recap which is "in the works" will come through without hitch, you never know just when it may come through, and only insiders have advance knowledge on the terms. Some recaps of recent years have had highly profitable results for the common shareholders. One of the most spectacular examples was American Woolen.

Fast

A couple of issues back we expressed here an aversion to stocks of meat packing companies, among others. Since then Armour has omitted the dividend of the common and the stock has fallen to a new low. We didn't have any advance information — just an idea. The way packer stocks are acting, this column ventures to predict that some day you can again buy a good steak without mortgaging the house. That is, if you wait until about the autumn of 1949 and if there is no war.

Ceiling Zero

Air lines are nearing the end of this year's seasonally favorable traffic period, with nothing done to solve the industry's basic problem, which is: too many vacant seats, too much expense, too little profit, if any. Higher fares are on the way out; and it is improbable that the RFC will make salvage loans except possibly on terms distastful both to the lines and their creditors. Any idea that Government money will pull the chestnuts out of the fire to help the common shareholders is sheer fantasy. Probably the way out is to stop expansion until traffic grows up to present facilities, to reduce duplicate routes through mergers and to economize wherever possible. So far the industry has not even adopted consolidated ticket offices. This column repeats its warning on the stocks. Their "ceiling" at the present time is practically zero — meaning that the clouds are indeed dense. Don't buy them. If you hold them, the chances are that even at present apparently low prices you will save some money by selling them.

Consolidation

American Home Products has grown greatly over the years mainly by the process of buying up smaller companies having established trade-marked products such as proprietary items, household and food specialties, etc. Sales went from $13.6 million in 1929 to $31.7 million in 1939 and to $127.6 million last year. Expansion of this type often brings lower profit margins and only modest long-term gains in earnings per share — and has done so in this instance. The operating profit margin was 27.4% in 1929, 19.8% in 1939, 11.5% in 1946 when the record high net per share, to date, was shown at $2.46, compared with $1.82 in 1929. Last year, like most in its field, the company had a "recession," the margin falling to 9.9% and earnings to $1.72 a share. However, things are now looking up. The company has stopped expanding long enough to do some internal housecleaning via coordination of its numerous activities, with substantial economies. Earnings rose to $1.14 a share for the first half year, from only 73 cents for the like period of last year, and for the full year will come very close to the previous all-time high of 1946, or $2.46. Dividends have been paid each year since 1926, with the policy fairly liberal. The present rate is $1.20 a year, payable 10

(*Please turn to page* 655)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
ACF-Brill Motors	6 mos. June 30	def. $ .83	$ .30
Electric Auto-Lite	6 mos. June 30	3.20	3.38
General Realty & Utilities	9 mos. June 30	.52	.71
Kennedy's, Inc.	6 mos. July 31	1.39	1.46
Lehigh Valley Coal	6 mos. June 30	.79	2.48
Mead Johnson	6 mos. June 30	.52	.92
National Airlines	Year June 30	def. 2.59	.50
Pitney-Bowes, Inc.	6 mos. June 30	.62	.72
Sheller Mfg.	6 mos. June 30	2.41	2.73
Smith (L.C.) & Corona Typ.	6 mos. June 30	4.77	5.57

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1. Give all necessary facts, but be brief.
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3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
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Mountain States Power Company

"Please report recent operating revenues and net income of Mountain States Power Company."
O. P., Grand Rapids, Michigan

Operating revenues of Mountain States Power for the 12 months ended June 30, 1948, amounted to $9,173,274, as compared with $7,841,904 for the 12 months ended June 30, 1947. Net operating income, after operating expenses, maintenance, taxes and depreciation was $1,700,293 for the 12 months ended June 30, 1948, compared with $1,335,127 for the corresponding period ended June 30, 1947. Net income, after deduction for all interest charges, amortization of debt expense and premium, etc., amounted to $1,395,374 compared with $1,007,294 for the corresponding period indicated. Earnings per common share for the 1948 period amounted to $5.07, compared with $3.51 in the preceding 12 months.

For the six months period ended June 30, 1948, operating revenues amounted to $4,784,265, compared with $4,051,092 for the corresponding period of the previous year. Net income for the first six months of 1948 amounted to $709,223, equal to $2.58 per common share, compared with $542,192 or $1.91 per common share for the corresponding period of 1947. The stock is currently paying a 62½c quarterly dividend. This issue is listed on the New York Curb Exchange.

Carrier Corporation

"Please advise on order backlog, earnings and working capital position of Carrier Corporation."
G. R., Reading, Penna.

Carrier Corporation, leading manufacturer of air conditioning and refrigeration equipment, established a new high record of $55,734,519 in completed contracts and sales during the twelve months ended July 31, 1948. The comparable figure for the previous similar period was $46,120,771.

Net profit for the period was $2,531,456 after provision for income taxes, certain non-recurring expenses and reserves for contingencies, or $3.89 per share of common stock. This compares with $2,378,744 for the twelve months ended July 21, 1947, or $3.62 per common share. These latter figures reflect carry-back tax credits for the three months ended October 31, 1946, and income tax provisions for the nine months following.

New orders booked during the twelve months ended July 31, 1948, totalled $50,209,802 and the corresponding period for the preceding period was $40,445,390. As of July 31, 1948, the Corporation had a backlog of unfilled orders amounting to $20,908,610 as compared with $26,433,327 a year earlier and with $21,668,140 on November 1, 1947, the beginning of the present fiscal year. The backlog had been reduced despite an increased volume of new business. The reduction was largely attributed to improved production operations, together with more normal ordering practices on the part of dealers and distributors. The first nine months of fiscal 1948 completed contracts and sales were almost identical in amount with the volume of new orders booked after giving effect to all cancellations. Although foreign and marine orders were below those of the first nine months of fiscal 1947, domestic bookings were substantially greater and total new business written in the present fiscal year was approximately 12 percent above that of the corresponding period a year earlier.

In July, all of the short-term bank loans of the Corporation were paid off and its net working capital as of the month's end was $16,047,175 with cash on hand amounting to $3,791,011. Corresponding figures a year earlier were $14,133,808 and $2,523,893, respectively.

Associates Investment Company

"Please furnish information as to recent earnings and expansion program of Associates Investment Company."
L. D., Pontiac, Michigan

Associates Investment Company and its finance subsidiaries acquired a gross volume of receivables totalling $298,484,707 in the six month period ended June 30, 1948, compared with $199,677,143, in the same period of the preceding year.

Consolidated net earnings of the company and all subsidiaries for the first half of 1948 were $3,086,190, or $2.96 per share on the common stock outstanding, compared with $1,559,182, or $1.50 per share for the first six months of 1947, after giving effect retroactively to the two for one substitution of $10 par value common stock for no par value common stock effective August 25, 1947, and the sale of 200,000 additional shares on October 14, 1947.

Emmco Insurance Company and its subsidiary Emmco Casualty

(Please turn to page 657)

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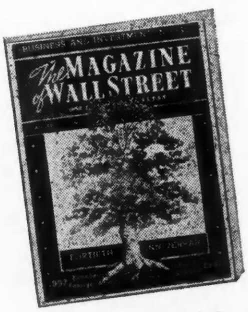

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The Magazine of Wall Street Advances to $15 Per Year Oct. 15

Keeping Abreast of Industrial and Company News

The **du Pont company** announces that it has begun the small scale manufacture of titanium metal, a new basic raw material for industrial development. This silver-white metal is not only light and strong but it is also highly resistant to corrosion and has a higher melting point than the commonly used metals. It is comparable to stainless steel in strength and corrosive resistance but weighs only a little more than half as much per unit of volume.

A revolutionary new type of safety reflective sheeting for automobiles has been announced by the **Minnesota Mining and Manufacturing Company.** Applied to motor vehicle bodies, this newest form of "Scotchlite" makes them as clearly visible after dark as in daylight. The new reflective sheeting is made with a perfectly smooth, glossy surface similar to the standard car finish. It can be made available in all colors and shades.

The latest type disc brakes for railroad cars, perfected by the **Budd Company,** will be installed on the 50 sleeping cars recently ordered from Budd by the **Union Pacific Railroad,** according to G. M. Barnes, Vice President in Charge of Engineering. He states that this new brake gives quick, smooth braking, free from chatter, even under emergency application. He adds that it increases the life of the wheels and saves up to 1,000 pounds per car.

Columbia Broadcasting System has announced a four-year program for extending its television operations into more than eighty cities, in contrast with the five that are linked now. Both sponsored and sustaining programs will be supplied on film to outlets requiring the service until such time as all CBS television stations are linked via coaxial cable or microwave relay in regional and coast-to-coast networks.

The **New York, New Haven & Hartford Railroad Company** has inaugurated radio-telephone service on four of its trains. This is believed to be the first New England rail system to install such facilities. Calls to and from all parts of this country and Canada and to South America and points overseas may be made. The service wil be available to both coach and parlor car passengers.

According to W. P. Marsh, Jr., president of **United States Industrial Chemicals,** beef supplies can be increased by hundreds of millions of pounds in a few months with the general adoption in the range country of a new technique of animal parasite control, using the recently developed insecticide, Pyrenone. Tests have shown that a single application gave adequate lice control for the entire season, resulting in cattle gaining substantially in weight.

It is possible now to have the beneficial winter sunshine in school rooms, factories, offices, and even mines. This is due to the development by **Westinghouse Electric Corporation** of a new fluorescent sunlamp which can bathe large groups simultaneously indoors with unseen but beneficial ultraviolet such as exists in natural sunlight. Company scientists claim that the new lamp is the most powerful yet produced.

Studies of the application of gas turbines to locomotives have shown their feasability for high speed passenger trains, according to a paper read to The American Society of Mechanical Engineers by Walter Giger, consulting engineer of **Allis-Chalmers Manufacturing Co.** He states that higher speed is attained without reducing safety of operation, by lowering the center of gravity and by reduced weight, as well as by streamlining.

Tomorrow's auto engine will give 25 per cent more miles per gallon, and you will be filling up at the gasoline pump on such high-compression fuels as triptane, tuolene, benzene, and trimethylpentane as well as superleaded gas. The **American Chemical Society** has been told by leading petroleum chemists that new fuels can be ready by the time efficient engines are on the market.

The **Chesapeake & Ohio Railway** is in the market to dispose of seventy-one sleeping cars that it ordered in 1946 but that have not yet been delivered. Part of an original order for 192 cars, the cost has steadily gone up from $90,000 per unit in 1946 to approximately $180,000 today, and may go even higher by the time the full order could be delivered at the close of 1949. By that time the road expects to complete much of the experimental work on its "Train X" which it may put into service in 1951.

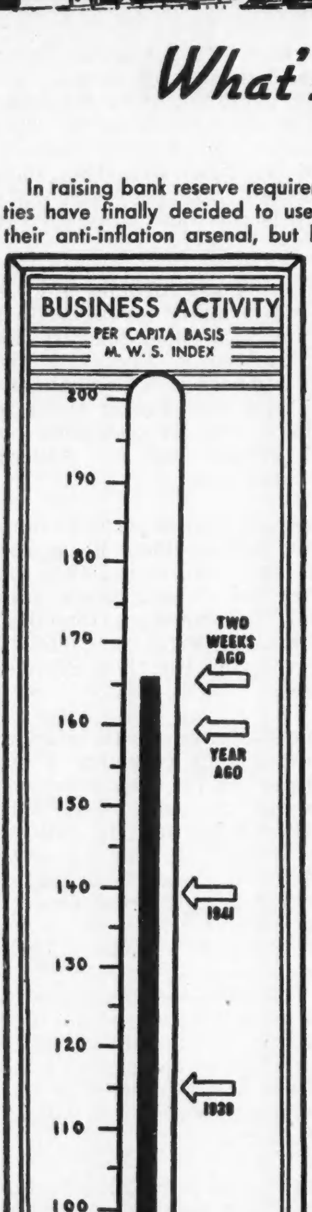
A new sulfa-type drug has successfully halted a polio virus in laboratory mice. This marks the first time a virus disease has been successfully attacked by a man-made chemical. The new drug carries the trade name of Darvisul and was developed by the **American Cyanamid Company.** Its effect on human poliomyelitis is as yet unknown.

After three years of peacetime production during which a tremendous replacement backlog has largely been filled, the demand for all rubber products still continues at high levels compared to the immediate pre-war years, according to P. W. Litchfield, chairman of **Goodyear Tire & Rubber Corp.** He estimates that the replacement demand for passenger car tires in 1949 would exceed this year's estimated output of 40,500,000 tires.

What's Ahead for Business?

By E. K. A.

In raising bank reserve requirements, the monetary authorities have finally decided to use another of the weapons in their anti-inflation arsenal, but how much of a test this will mean for the business boom remains to be seen. Some think that the various steps so far undertaken may ultimately have a cumulative effect, though over the more intermediate term they will prove only moderately restrictive.



Doubtless it will become somewhat harder and more expensive to borrow money. Interest rates are bound to stiffen some more and lenders may become more selective in choosing outlets for their funds. Still, as pointed out elsewhere in this issue, actual lending power of the banks will not shrink. They can easily raise additional reserves or credit funds by the sale of government bonds to the Federal Reserve System. Very few, relatively, are likely to be forced to reduce their lending. Generally there will be sufficient credit for all legitimate business purposes to keep the boom going.

The economy meanwhile continues at a very high level despite mixed trends, chiefly in soft goods lines. Nothing so far points to any notable contraction during the balance of the year, but the extent of the autumn pick-up in retail trade remains an important indicator of the prospects beyond the year-end. Industrial production, personal income, employment and consumer spending remains close to the year's peak, and Government spending will probably accelerate from here on.

Cause of mounting concern in industry is the outlook for steel. The voluntary steel allotment plan, exports and ERP will require combined set-asides of an estimated 16 million tons of finished steel, out of a total production of about 66 million tons. This means that someone will get squeezed.

The problem will become acute by the first quarter of next year, and even more so thereafter. Makers of automobiles, household equipment and many others may have to get long with less steel, may be forced to slacken their production pace already hampered by the steel shortage. Industry may have to face output curtailment of certain end-use products in favor of preferred and more necessary production. Exact potential impact is still difficult to appraise, but steel consumers are worried. Hence the clamor for steel even in lines where production and demand has ben easing off. The purpose, obviously, is to build steel inventories against the day when more stringent restrictions come into effect.

Building Activity Currently Bright Spot

Bright spot in current picture is strength of building activity, notably housing, with August figures setting new records. While a seasonal decline later in the year is inevitable and high building costs plus stiffer financing terms increasingly impinge on future new housing starts, a marked slump in construction is hardly likely. Huge public works projects are being held in reserve. Moreover, any future decline in building costs will open up vast new markets among would-be builders now holding out for lower prices. Thus no great weakening of this important economic prop appears in sight, though a moderate decline may very well occur.

Bolstering Effect of Defense Spending

Defense outlays are almost certain to rise next year. The presidential limitation of such spending to $15 billion annually may not stand much beyond the current fiscal year, during which $14 billion have been budgeted, if that long. Important determinant is the future trend of the international situation. The present outlook hardly encourages the thought that defense costs can be trimmed; rather it argues for a further stepping up, particularly if lend-lease to Western Europe is being revived. More of this will be heard once the elections are out of the way; as it looks now, it will become an integral part of our defense strategy to counter Russian aggression.

Within the overall picture of high economic activity, expect further progress in the current process of piece-meal adjustment of industry to balanced supply-demand conditions, with production stabilizing at relatively high levels. In a good many lines, unit output has already peaked out; more will follow. But so far, no signs of any major weakness are visible for the period just ahead.

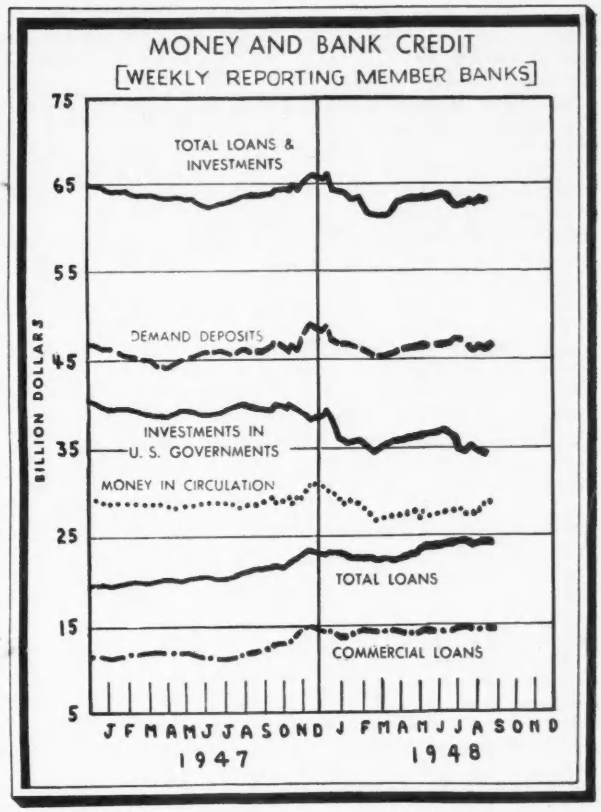
HIGHLIGHTS

MONEY AND CREDIT—M. W. S. common stock index drops to lowest level since April 10, and 100 high priced stocks to lowest since April 3, under difficult foreign situation, raising of reserve requirements, and uncertainty over the longer range business outlook. Bonds, preferred stocks and bank stocks yield ground grudgingly, despite threat to credit supply. Initial step to curb credit expansion by financial measures will have little effect upon the money market; but, coming at a time when some of the lesser industries are already slipping, persistent manipulated pressure upon the money supply could, if for no other than psychological reasons, hasten and prolong the inevitable post-war recession.

TRADE—Department store sales in week ended Sept. 4 rebounded to 16% above the like week last year, which contained one less shopping day. For the opposite reason, sales at New York City in the following week dropped to around last year's level. Rising costs are eating into the margin of profit per dollar of sales, despite a cumulative increase of 8% in the dollar total of sales to date.

INDUSTRY—Business activity was off fractionally in the fortnight ended Sept. 4; but margin of increase over last year widened to 6%. Railroad net income in July was 133% above last year, against seven-months' gain of only 34%. Expenditures for new construction during August were largest for any month in history. Automobile dealers say it would take 26 months to fill current backlog of orders. On the other hand a number of lesser industries have already passed their peaks of demand.

COMMODITIES—Prices sink to new lows for the year; then rally a little.



Department Store Sales in the week ended Sept. 4 rose to 16% above the like week last year, which had one less trading day, compared with a cumulative increase of 8% for the year to date. For the opposite reason, sales at New York City during the following week ended Sept. 11 dropped to 7% below last year's level. Costs are rising faster than sales, however, so that profit margins per dollar of sales are narrowing.

* * *

Torrid weather, pre-Labor Day influences and strikes at California oil refineries combined to produce a fraction dip in the nation's physical volume of **Business Activity** during the fortnight ended Sept. 4; but, as the seasonal decline was somewhat larger a year ago, the margin of annual increase widened to 6%.

* * *

For the month of August, this publication's **Business Index** rose fractionally to 188.5% of the 1935-9 average, from 188.3 in July, to a level 5.4% above August of last year. On a per capita basis, the index was 166.4% of the 1935-9 average, compared with 166.3 in July and 160.7 for August, 1947.

* * *

Corporate Profits last year totaled $17.4 billion of which $10.8 billion was earmarked for employment-creating capital expenditures. The remaining $6.6 billion, only 39%, were disbursed to stockholders who doubtless invested a sizeable portion in employment-creating undertakings. Incidentally, employees received directly during the year $82 billion for their contribution in brain and muscle power to current production. Stated otherwise, the owners of corporate enterprises, as represented by stockholders, received only 4% of what the companies take in, whereas employees received 96%.

* * *

Last year the **National Banks** earned only $453 million—$42 million less than the year before; yet dividend payments totaled $185 million—up $14 million.

* * *

Electric operating revenue of the larger privately-owned **Utilities** during July was 14% ahead of the like month last year, and even net income was up 9%.

* * *

July net income of the 131 Class I **Railroads** totaled $76.7 million—122% above the like month of last year, compared with a seven-months' increase of only 34%. The phenomenal spurt in July was due largely to rate increases and a reduction in unemployment taxes. For seven months, the annual rate of return on property investment averaged only 3.79% however, and 25 of the 131 carriers failed to earn interest and rentals.

* * *

Expenditures for new **Construction** during August were the largest for any month in history; though only 31% ahead of a year ago compared with an eight-months' increase of 35%.

* * *

The National Automobile Dealers Association says that dealers in **Automobiles** on July 1st had orders on their books for 7.3 million new cars—11% more than as of the first of the year. It would take 26 months at current rate of production to

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Aug.	1.04	1.31	1.06	1.55
Cumulative from mid-1940	Aug.	371.5	370.5	358.4	13.8
FEDERAL GROSS DEBT—$b	Sept. 8	252.7	253.1	259.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 1	47.0	47.1	47.0	26.1
Currency in Circulation	Sept. 8	28.3	28.1	28.7	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 1	8.14	8.18	7.32	4.26
93 Other Centers—$b	Sept. 1	12.47	12.38	10.90	7.60
PERSONAL INCOMES—$b (cd3)	July	214	215	214	102
Salaries and Wages	July	135	134	135	66
Proprietors' Incomes	July	51	53	51	23
Interest and Dividends	July	17	17	17	10
Transfer Payments	July	11	11	11	3
(INCOME FROM AGRICULTURE)	July	25	22	27	10
CIVILIAN EMPLOYMENT—m (cb)	Aug.	61.2	61.6	59.5	51.8
Agricultural Employment (cb)	Aug.	8.4	9.1	9.0	8.8
Employees, Manufacturing (lb)	July	16.2	16.2	15.7	13.8
Employees, Government (lb)	July	5.6	5.6	5.5	4.6
UNEMPLOYMENT—m (cb)	Aug.	1.9	2.2	2.1	3.8
FACTORY EMPLOYMENT (1b4)	July	158	158	155	47
Durable Goods	July	185	184	184	175
Non-Durable Goods	July	137	133	132	123
FACTORY PAYROLLS (1b4)	June	359	347	327	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	July	39.8	40.2	39.8	40.3
Hourly Wage (cents)	July	133.0	131.7	122.6	78.1
Weekly Wage ($)	July	52.96	52.95	48.98	32.79
PRICES—Wholesale (1b2)	Sept. 4	167.4	168.4	154.9	92.5
Retail (cdlb)	June	193.5	182.1	178.7	116.2
COST OF LIVING (1b3)	July	173.7	171.7	158.4	110.2
Food	July	216.8	214.1	193.1	113.1
Clothing	July	197.1	196.9	184.7	113.8
Rent	July	117.3	117.0	110.0	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	July	10.56	10.76	9.36	4.72
Durable Goods	July	2.87	2.89	2.40	4.72
Non-Durable Goods	July	7.69	7.87	6.96	3.58
Dep't Store Sales (mrb)	July	0.68	0.82	0.62	0.49
Retail Sales Credit, End Mo. (rb2)	July	6.68	6.73	4.88	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	June	262	244	245	181
Durable Goods	June	309	267	271	221
Non-Durable Goods	June	235	230	230	157
Shipments (cd2)—Total	June	335	328	295	187
Durable Goods	June	374	353	328	227
Non-Durable Goods	June	315	314	276	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	June	39.7	39.0	33.5	28.9
Manufacturers'	June	17.8	16.9	15.1	16.7
Wholesalers'	June	8.1	8.1	6.8	4.1
Retailers'	June	13.8	14.0	11.6	8.1
Dept. Store Stocks (mrb)	June	2.2	2.3	1.9	1.4
BUSINESS ACTIVITY—1—pc	Sept. 4	165.8	167.6	159.2	141.8
(M. W. S.)—1—np	Sept. 4	179.2	181.0	177.2	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 651)

deliver that many autos. Orders can be cancelled, though, if business conditions should not turn out to be as good as expected.

* * *

On the other hand, production of **Radio** receivers in July numbered only 627,000—43% below last year and lowest since Feb., 1946. Production for seven months was off 17%. Main reason for the slump in radio production is competition from the more popular, though expensive, **Television** sets of which 325,000 were turned out against only 56,000 in the like month of 1947. In July, 1946, only 41 were produced. More sets were shipped during the second quarter of the current year than in all of 1947.

* * *

Though competition is keen and profit margins are narrowing in the **Soft Drinks** field, aggregate sales for the first half were still well ahead of the like period last year. Sales by the oldest company in the business, Coca-Cola, led with an increase of 64%; followed by Canada Dry, up 12%; and Nehi, 7%. Sales by the remaining three major producers — Pepsi-Cola, Hires and Dr. Pepper — suffered declines of 22.6%, 23.2% and 26.8%, respectively. Profit margins of five of the six companies for the first half were lower than for the like period last year. Outstanding exception was Coca-Cola, which reported earnings of $3.72 per common share this year aaginst only $2.75 last year.

* * *

The outstanding shortage at the present time is in **Steel** which, according to the Iron Age, is in some measure attributable to a loss thus far this year of 1.6 million tons due to coal strikes .The steel shortage is also partly responsible along with strikes, for failure of some heavy goods industries, notably automobiles, to achieve maximum production.

* * *

Yet despite strikes, bituminous **Coal** stocks are becoming topheavy and production is declining a little as smaller mines shorten hours. Until recently, capacity production has been the rule; but it begins to look now as though the industry will revert before long to its pre-war seasonal pattern of high activity during winter months and lower operations in summer. Anthracite production, however, is still held back by car shortages.

* * *

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	July	187	192	176	174
Mining	July	154	159	140	133
Durable Goods, Mfr.	July	220	222	207	220
Non-Durable Goods, Mfr.	July	172	179	163	151
CARLOADINGS—t—Total	Sept. 4	895	891	809	833
Manufactures & Miscellaneous	Sept. 4	401	393	353	379
Mdse. L. C. L.	Sept. 4	108	105	103	156
Grain	Sept. 4	51	52	48	43
ELEC. POWER Output (Kw.H.)m	Sept. 4	5,470	5,478	4,271	3,267
SOFT COAL, Prod. (st) m	Sept. 4	11.9	12.2	10.7	10.8
Cumulative from Jan. 1	Sept. 4	392	380	413	446
Stocks, End. Mo.	July	58.1	58.0	45.4	61.8
PETROLEUM—(bbls.) m					
Crude Oouput, Daily	Sept. 4	5.5	5.5	5.2	4.1
Gasoline Stocks	Sept. 4	95	96	86	86
Fuel Oil Stocks	Sept. 4	72	71	57	94
Heating Oil Stocks	Sept. 4	69	66	56	55
LUMBER, Prod. (bd. ft.) m	Sept.	525	581	417	632
Stocks, End Mo. (bd. ft.) b	July	6.3	5.9	6.0	12.6
STEEL INGOT PROD. (st.) m	Aug.	7.42	7.07	6.99	6.96
Cumulative from Jan. 1	Aug.	57.6	50.2	55.9	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 9	107	147	146	94
Cumulative from Jan. 1	Sept. 9	4,861	4,754	3,889	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 4	234	166	197	165
Cigarettes, Domestic Sales—b	July	27.5	31.7	29.5	17.1
Whiskey, Domestic Sales (tax gals.) m	July	3.2	3.1	3.1	8.1
Footwear Production (pairs) m	June	38.6	34.0	34.1	34.8
Motor Vehicles, Factory Sales—y	July	474	431	379	352
Portland Cement Production (bbls.) m	June	17.7	17.7	16.0	14.9

PRESENT POSITION AND OUTLOOK

A heated war of words is on between **Banks and Insurance Companies,** each side accusing the other of promoting inflation by disposing of its Government bond holdings to finance expansion in more profitable business loans, as both clamor for higher interest rates. Grapevine whispers hint at possible lowering of Government support points for non-bank sales; but this would tempt banks to buy at a discount and resell to the Federal.

* * *

Unit production in a number of lesser industries has already passed its peak. Among these are vacuum cleaners, domestic heating stoves, water heaters, oil burners, truck trailers, tires, batteries, footwear, women's and children's clothing, cigars and glass containers. When a **Recession** finally occurs, it will be not nearly as severe as the 1929-32 slump; because business loans are not extended, foreign nations are in no position to withdraw large sums from our gold reserves, while farm commodity prices will receive at least some measure of support.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

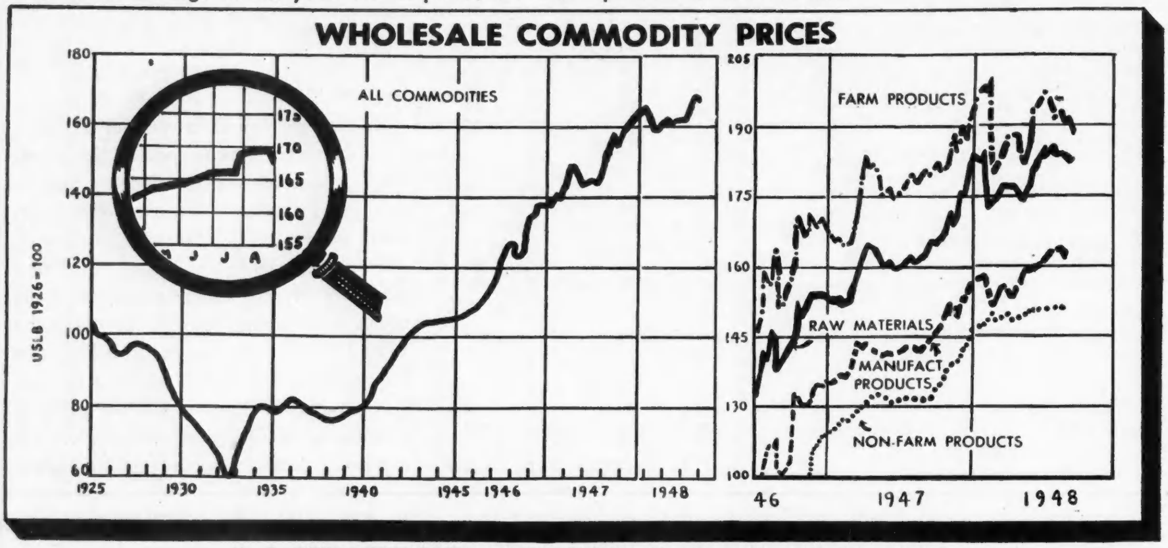
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Sept. 3	Sept. 10
312 COMBINED AVERAGE	151.9	119.0	141.8	135.5
4 Agricultural Implements	240.1	178.8	222.1	213.1
11 Aircraft (1927 Cl.—100)	193.5	134.3	180.8	175.4
6 Air Lines (1934 Cl.—100)	515.6	394.6	425.6	394.6e
6 Amusement	106.8	78.7	84.5	82.2
13 Automobile Accessories	224.1	171.1	204.1	197.5
12 Automobiles	41.3	31.4	36.2	34.8
3 Baking (1926 Cl.—100)	21.9	16.4	20.6	20.1
3 Business Machines	297.1	224.7	282.4	270.4
2 Bus Lines (1926 Cl.—100)	168.4	133.4	145.0	140.6
5 Chemicals	267.1	221.6	243.9	236.3
2 Coal Mining	26.9	14.7	23.6	21.4
4 Communication	56.1	42.3	47.5	46.2
14 Construction	71.5	56.6	63.0	60.2
7 Containers	346.0	283.5	300.3	283.5c
9 Copper & Brass	119.1	92.0	109.5	104.5
2 Dairy Products	60.2	50.7	56.4	55.9
5 Department Stores	71.9	53.9	64.9	62.3
6 Drugs & Toilet Articles	184.4	149.3	159.1	151.9
2 Finance Companies	268.3	199.4	241.6	234.5
7 Food Brands	177.6	152.8	169.0	165.7
2 Food Stores	67.5	59.7	61.8	61.0
3 Furniture	88.3	70.9	85.2	80.1
3 Gold Mining	772.7	620.6	644.9	624.1

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 3	Sept. 10
100 HIGH PRICED STOCKS	91.84	75.27	86.34	83.54
100 LOW PRICED STOCKS	182.86	135.10	167.99	158.30
6 Investment Trusts	71.6	50.0	65.3	61.9
3 Liquor (1927 Cl.—100)	843.5	637.7	727.6	707.4
9 Machinery	179.5	136.8	160.3	154.3
3 Mail Order	125.5	89.8	110.5	108.2
3 Meat Packing	112.7	88.5	91.8	88.5a
13 Metals, non-Ferrous	189.1	138.0	168.3	162.7
4 Paper	48.7	34.1	43.9	42.0
24 Petroleum	301.0	199.5	271.5	255.9
19 Public Utilities	124.9	97.8	116.7	113.4
5 Radio (1927 Cl.—100)	30.6	17.8	25.4	23.8
8 Railroad Equipment	67.2	52.9	59.7	57.8
24 Railroads	30.3	20.5	29.1	28.1
3 Realty	27.1	21.1	23.1	23.4
2 Shipbuilding	140.5	102.8	135.7	132.9
3 Soft Drinks	516.5	359.9	366.5	359.9d
14 Steel & Iron	121.8	96.2	117.6	113.3
3 Sugar	54.7	44.8	51.2	50.2
2 Sulphur	281.9	206.6	265.0	258.0
5 Textiles	170.4	118.9	160.9	152.0
3 Tires & Rubber	33.6	27.5	32.7	31.3
6 Tobacco	71.7	62.4	71.7A	69.7
2 Variety Stores	327.8	286.9	314.4	299.4
17 Unclassified (1947 Cl.—100)	109.8	90.0	104.0	100.6

A—New HIGH since 1947. New LOW since: a—1947; c—1945; d—1944; e—1943.

Trend of Commodities

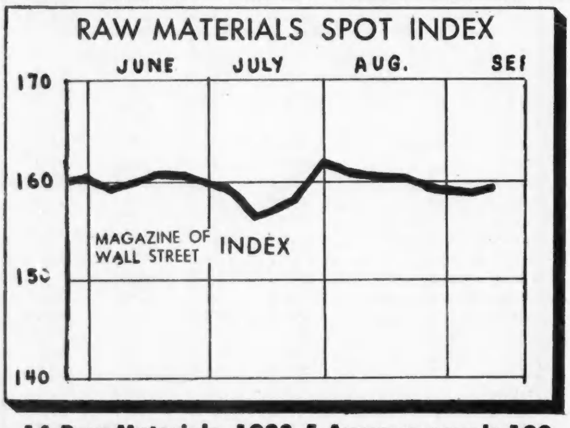
After establishing new lows for the year, commodity prices rallied rather sharply; but closed off a little on the fortnight. Corn, however, showed little rallying power. Hides resisted the decline and closed up on the fortnight. Grain export allocations for the fourth quarter have been set at 145 million bushels of which only 45 million remain to be bought. Most of the overseas grain shipments after Dec. 1 will be made through commercial channels. For the first time since pre-war years, world wheat supplies this season will suffice for indicated demand. Our exports from the 1949 crop, according to the Agriculture Department, will probabtly not exceed 350 million bushels, against an estimated 450 million from the 1948 harvest. Private estimates indicate that planting of winter wheat this autumn, thanks to continuation of government support through 1949, will be as large as last year. Wheat prices, now well under Government support levels, are expected to rally to somewhat above support levels after grain not eligible for Government loans has been disposed of. It is surmised that little "free wheat" will be available at the end of the present marketing season after at least 450,000 million bushels have been exported and 300,000 million tied up through loans or purchase agreements. The Agriculture Department's Sept. 1 condition estimates place the 1948 wheat crop at 6% under last year's record, and corn at 9% above the 1946 record. Experts figure that around 850 million bushels of grain will lack storage space this season. They also think that as much as 5 million bales of this year's cotton crop may be tossed into the laps of federal price-supporters. Taxpayers will have quite a bill to pay for Government storage, apart from a huge loss potential on ultimate sale.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Sept. 13	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	315.5	313.5	318.7	330.1	316.4	323.4	156.9
11 Imported Commodities	281.1	283.3	286.7	284.6	274.0	286.2	157.5
17 Domestic Commodities	340.0	334.8	341.3	363.3	347.3	350.1	156.6

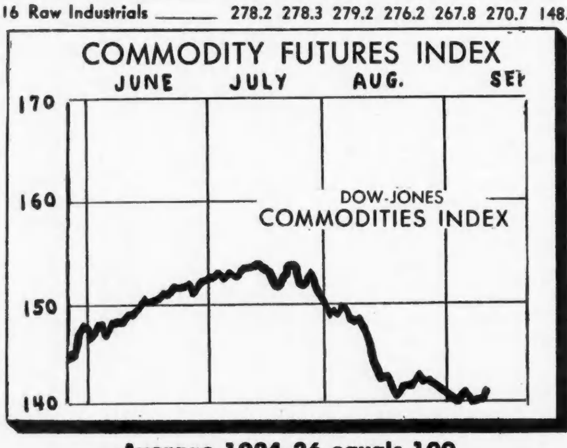
	Date Sept. 13	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	345.2	348.6	356.5	394.2	372.6	389.3	163.9
12 Foodstuffs	379.0	374.1	385.7	422.0	390.8	409.6	169.2
16 Raw Industrials	278.2	278.3	279.2	276.2	267.8	270.7	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	139.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

For Profit & Income

(*Continued from page* 647)

cents monthly; and it could very well be augmented by a small year-end extra. Selling around 24, yielding 5% on the regular rate, this stock has above-average investment merit.

Growth

Sutherland Paper has managed to grow without sacrifice of profit margins. Net income nearly doubled from 1929 to 1939, and last year was around three times that of 1939. Sales were not revealed back in 1929. However, from 1936 through 1947 they rose 241%. The operating profit margin last year was 16.3%, not much out of line with the average of 16.5% for the war years, or with margins in good peacetime years, such as 14.6% in 1941, 14.6% in 1937 and 14.9% in 1936. The business—making containers from paperboard of the company's own manufacture — is highly specialized and therefore largely immune to the price shifts which have plagued much of the paper industry in the past. It is also depression-resistant. Thus, in the poor year 1938 sales fell only 10%, share earnings only 27%. Earnings this year will be pretty close to last year's record $6.87 a share and dividends should at least match last year's $2.50. Payments have been continuous since 1923. The stock is currently selling around 42. It is a good one to earmark for future purchase.

Should Govt. Bond Support Levels Be Lowered? Yes—Says Thomas L. Godey

(*Continued from page* 627)

expansion by putting pressure on lenders rather than attempting the impossible by fostering a moderate stiffening of interest rates, which in the current economic environment is no deterrent to most borrowers.

Fears have been expressed that lowering bond supports might not only dangerously unsettle the government bond market, but that it might cut down much too sharply the country's credit base at a time when much of business activity is dependent on availability of adequate credit. These fears, certainly in their more radical form, appear unjustified.

True, there would be some unsettlement in the bond market, perhaps more anticipatory than permanent. However, any serious unsettlement, should it actually threaten, could be dealt with by offering incentives to large holders of longterm bonds, not only to hold them to maturity but even to add to their portfolios. Such incentives could take the form of reduced deposit liability on that part of deposits invested to maturity in long term obligations. Or it could take the form of lower reserve requirements on similarly invested funds. Some substitute, or let's call it compensation, for withdrawing the 2½% rate support would probably be in order to avoid unsettling repercussions. Banks, insurance companies and others will continue to require heavy government bond investments in the interest of liquidity. By offering them adequate incentives to hold them to maturity, dangerous market unsettlement could no doubt be avoided, while by dropping bond support levels, credit expansion would at last be stopped by rendering unattractive the sale of governments and investing the proceeds in inflationary loans.

Surely yield rates would go up, once the authorities let bond prices drop, and the Treasury would be faced with the necessity of paying higher interest on its future borrowing and refunding activities. However, this higher financing cost could and should be offset by budgetary economies elsewhere—and there is plenty of room for it. It is a specious argument to say that higher interest costs can only add to the tax burden. If there is a will, they can doubtless be readily and fully compensated by budget economies.

Lowering bond supports might, temporarily at least, imply greater budgetary and debt management problems, but these hardly compare with the danger of further inflation. How effective such a policy could be is shown by the vigorous impact on the entire credit situation last year when the Federal Reserve System lowered its support levels for government bonds and raised the rediscount rate. It is time to go another step in this direction. The very least that should be done, and done promptly, is to remove the present narrow but expensive premiums over par. Better still, to let bond prices drop a few points below par to remove any inducement to excessive inflationary lending.

Prospects for Machinery and Machine Tools

(*Continued from page* 640)

be seen that under current conditions, price-earnings ratios of most concerns in this group are relatively low and that on the average the yields are inviting. Considering the reputation of the industry for long term instability, this probably reflects investor caution and wisdom. But with careful selectivity and good timing, satisfactory commitments can be made in this group by conservative investors desiring good income and a chance for appreciation.

Marketwise, stocks of machinery companies in general have shown rather better recovery than most other industrial groups from the low point of 1947, and improved prospects lately stimulated speculative interest. The Magazine of Wall Street Index of machinery shares on September 3 stood at 160.2 compared with a 1948 range of high—179.5, low—136.8. This indicates the group's current better than average market position but the wide range also points out its degree of sensitivity to changes in the speculative atmosphere. Being highly cyclical, most machinery and machine tool company shares are naturally also considerably speculative.

Significance of Growing American Investments Abroad

(*Continued from page* 625)

investments to Latin America in the next decade to develop strategic resources. The catch is that American investors, after previous disappointing experiences, are afraid to sink large amounts of new money south of the border. Oil firms have been going ahead in various countries, as previously described. So has Anaconda Copper in Chile. Several firms have plans for investing $5 to $10 million in Brazilian manganese. But generally there is a tendency to wait for fairer treatment, for signs that they will get an "even break."

Also, American capital will be given an opportunity for investment in Japan, subject to the gen-

eral reconstruction pattern evolved by the occupation authorities. Finally, investments in Western Europe are being encouraged by longterm ECA guarantees, making for further expansion of American capital in an area otherwise clouded by political instability and, in some cases, hostility to capital.

In short, there is ample proof that America is ready to fulfill its role as a creditor nation as far as private investment is concerned, though past results have frequently been spotty. In the coming years, American capital will doubtless be called upon to play an increasingly larger role, for economic development in the long run can hardly remain the exclusive purview of governments and international institutions. Ultimately, it is hoped, large scale investment in foreign securities may again become feasible though that is in the more distant future —when real peace and stability have been restored. Only then can private long term investment take the place of the extensive Government financing of the postwar era.

Should Government Bond Support Levels Be Lowered

No—Is the View of J. S. Williams

(*Continued from page* 627)

wake of the other. Credit is a delicate mechanism and drastic interference with it can produce disastrous chain reactions. This should be avoided by all means, and utmost care taken so as not to contribute to any weakening of our economy at a time when there is urgent need to keep it strong.

But quite apart from this, the inflationary effect of government bond sales—and they have risen strongly in recent weeks—is exaggerated. Bond market support has been largely offset during the past year by bond redemptions and sales of shortterm securities to banks. Thus the direct credit-increasing effect of these purchases, in that they provide new cash or reserves for lending, is reduced to the extent that such funds are counter-balanced in the manner indicated.

To cite some recent figures. In the week ended August 18, the Federal Reserve System bought in the open market on balance some $194 million worth of bonds. But as on many previous occasions, sales by the System of shortterm securities more than offset these purchases, resulting in the System being a seller on balance, to the tune of some $15 million. Similarly, in the week ended September 1, open market net purchases of $178 million worth of bonds were exceeded by sale or redemption of shortterm securities, resulting in a net decline of the System portfolio of $91 million.

Banks vs. Insurance Cos.

Hence as far as the banks are concerned, the credit supplied by bond support has been more than offset. Admittedly when it comes to sales by insurance companies and other non-bank lenders, their ability to expand credit is only countered by whatever restraint the banks exert on their own lending. From an inflationary standpoint it makes little difference whether the lending is done by banks or others, and the Federal Reserve cannot stop non-bank lenders from selling their bonds. It has to buy them to protect the 2½% longterm rate.

Obviously, then, the situation holds certain inequities; but whether these are serious enough to warrant a general crack-down on credit with unpredictable consequences is more than open to doubt. Nor would it be practical to place restrictions on sales; it would be difficult to evolve a workable formula, would introduce a hardly desirable element of rigidity and last, but not least, it would mean a wholly undesirable step towards controls and regimentation.

And when it comes to elimination of premiums above par, as some suggest, who can say that it would deter insurance companies or others from liquidating their holdings whenever they desired to raise additional cash for more profitable business loans? I greatly doubt whether it would. It would simply make it a little less profitable.

Dropping or lowering bond pegs, as Mr. Godey correctly points out, would naturally result in higher yield rates all around, increasing the cost of refinancing and further Government borrowing, and thereby the cost of carrying our huge national debt. To strive, in such an event, for compensating budgetary economies elsewhere is an excellent, if perhaps somewhat unrealistic thought. More likely, in the light of past budget history, a higher debt burden would mean either more taxes, or would push further into the future any prospect of additional tax reduction. One way or another, the taxpayer would pay the bill.

The Psychological Factor

Another important aspect is the difficulty in gauging the psychological reaction, were bond prices permitted to decline below par. Heavy liquidation by bondholders of every description would be certain. It would penalize the individual bond investor, already penalized by the relatively low return in the face of enormously higher living costs. In a very definite sense, I feel, the Government has a moral obligation to avoid demoralization of the market in its securities. While this obligation may not go as far as maintenance of premiums above par, it does include avoidance of disastrous market unsettlement.

Such unsettlement were bound to occur. Support levels were reduced once before, and if it were done again, investors of all classes might readily lose confidence in the Government's intention to stop at this juncture. Fearing cuts in support prices, the urge to liquidate would be strong.

Would Not Drop Supports Entirely

To do away with support levels entirely is unthinkable. No one can maintain that a $252 billion national debt could weather the ups and downs of an unsponsored market. One need only recall what happened when the few billion Liberty Loan bonds were freed from their pegs back in the early 1920s. While the question at issue is not dropping the pegs entirely, but merely lowering them, the impact would be lessened only in degree. The Federal Reserve System would have to stand ready to absorb enormous offerings by holders unlikely to see the 2½% bonds sell at a discount; which in itself would place a new and heavy burden on the fiscal system.

To sum up: Lowering bond supports now would do more harm than good, and quite possible very great harm. This is not the time to engage in such a dangerous experiment.

Pros and Cons in Rail Equipment

(*Continued from page* 643)

Motive subsidiary, lands the leading share of orders for diesel locomotives, but there seems to be plenty of business in sight for all the established manufacturers in the field. At the end of 1947, the railroads had in service 4,964 diesel locomotives compared with 2,056 in 1941, while they owned about 4,500 fewer steam engines. At that they still owned more than 34,000 steam locomotives that eventually may be largely replaced by new diesels.

Aside from rolling stock of every description, the railroads are buying substantial quantities of modern switching and signalling devices, and are placing large orders for brakes and similar equipment. The Interstate Commerce Commission ruling that all railroads must be equipped with modern safety devices within the next few years practically assures large business for the main suppliers of this specialized equipment for an extended period to come. These include Westinghouse Airbrake, New York Airbrake, American Brake Shoe, General Railway Signal and others.

To sum up, efficiently managed concerns in the railroad equipment industry are now operating with satisfactory earnings, and as their backlogs are substantial there is good reason to expect further improvement when experience teaches ways to achieve better cost cutting methods. No doubt this industry would suffer in the event of a major letdown in general business activity, as it has been prone to do in past recessive periods, but during the foreseeable future it should enjoy abnormal prosperity.

The problem of cautious investors to whom equipment equities carry an appeal is to select issues with promise of dividend stability and opportunities for eventual appreciation. From our table it will be seen that we have assigned a satisfactory investment rating to the shares of a number of concerns in this group, and that their yields provide good income. Under present market conditions rail equipment stocks are generally selling about midway between their high and low points for 1948, in contrast to a recession of about one-third in the similar range for the larger industrial groups, as measured by the Magazine of Wall Street indices. In other words, many of the equipment shares seem reasonably priced and should have room for appreciation in any broad market upturn.

Answers To Inquiries

(*Continued from page* 648)

Insurance Company, the insurance subsidiary of Associates Investment Company, showed consolidated net earnings of $675,688 after provision for taxes and all reserves. Premiums written in the period totalled $8,658,381 as compared with $3,905,410 in the first six months of 1947, and unearned premiums increased from $3,945,531, at June 30, 1947, to $8,185,969 at the same date in 1948.

During the 1948 period the company curtailed its expansion program, established a more conservative policy in respect to receivables secured by used automobiles, and devoted more time and effort to the training and seasoning of its new employees.

Dividends thus far this year have amounted to $1.50 per share.

Walter Kidde & Company, Inc.

"Please report recent earnings and bookings of Walter Kidde & Company."
B. A., Sandusky, Ohio

Consolidated sales of Walter Kidde & Company for the first six months of 1948, exclusive of those of foreign subsidiaries, amounted to $5,773,000 as compared to $6,324,000 for the same period of 1947. A dividend of $77,767, at the current rate of exchange, was received from Walter Kidde & Company, Ltd., the English subsidiary, in April.

While the company's sales were slightly below those of last year for the six months period, they were more profitable than last year's. Including the dividend from the subsidiary in England, company's net income for the first half of 1948 was $351,000, compared to $173,000 in 1947. This year's first half's earnings are equivalent to $1.51 per share of common stock after provision for the preferred dividend, compared to last year's figures of 76¢ a share. After payment of the preferred dividend, and the common dividend of 50¢ per share, $173,000 was transferred to surplus.

Bookings of Walter Kidde & Company, Inc., in the first half year amounted to $5,900,000. This is $200,000 above 1947. Unfilled orders on hand June 30, 1948 were $3,500,000 as compared to $3,000,000 a year ago. Dividend payments so far this year have amounted to 75¢ per share.

France's Perennial Crisis

(*Continued from page* 633)

followed by a rise in costs, will make another devaluation of the official franc (214 to the dollar) inevitable. And the rate may be even lower than the present official free franc (306 to the dollar).

About the only ray of hope is that whatever French Government is in existence when the wave of inflation caused by the latest wage increase is spent, will make use of powers voted by the National Assembly to the Marie Government last month to carry out the Reynaud Program. If France is to have a real recovery, and if she is not to succumb to the extreme left or right, the Reynaud Plan or an equivalent of it will have to be carried out. Austerity, tightening the belt, and a drastic deflationary policy that would stabilize the franc cannot be avoided.

Meanwhile France's weakness is once more making her an uncertain partner in the united western front against Soviet Russia. Recurrent French instability is not only undermining western unity against Soviet aggression, it is bound to strengthen Soviet aims and machinations, and will improve communist chances to create political turmoil. The prospect of elections, in spite of Mr. Queuille's effort to hold his coalition together, nevertheless looms nearer with all its disquieting possibilities. For it is only natural that the French people inevitably will tend to think more and more of the extreme left and right as a way out of their difficulties, and this is far from reassuring—not only for France but for Europe and the entire West in their battle against the terror and the tyranny of the Soviet East.

Divergent Earnings Trends for Metal Companies

(*Continued from page* 637)

Association recently reported that this fell short of civilian demand alone by about half a billion pounds. Now that the defense program promises to swell the demand for aluminum from the aircraft industry, the pinch upon supply will become intensified.

Due to the shortage of steel and copper, manufacturers of everything from automobiles, railroad cars and roofing to ash trays have turned to more expensive aluminum in a big way. This inter-product competition has led to the introduction of thousands of new items made of the new metal, with cost factors increasingly favoring aluminum as the prices for steel and copper sharply advanced, while aluminum prices until very recently held stable at 15 cents per pound. Though aluminum prices rose a few weeks ago to 16 cents per pound, the rise was trifling compared with that of other metals. Due to the practical exhaustion of Government owned and producers' supplies of surplus aluminum, plus the imminence of stockpiling, there seems to be slim chance that demand can approach a desirable balance with supply for years to come.

To process the basic alumina ore entails a heavy burden upon electric power supply. Since the end of the war, five year leases of DPC plants have lifted domestic capacity to about 650,000 tons, or more than double the 1941 figure. But shortage of cheap electric power seems to have placed a barrier against further current expansion for a while. Aluminum Company of America is building a large new plant in Texas to be powered with electricity generated by natural gas but about two years may elapse before completion.

As matters stand now, ALCOA controls about 325,000 tons of total domestic aluminum production, Reynolds Metals 190,000 tons and Kaiser interests 108,000 tons. Aluminium Company Limited has made strides in expanding Canadian output, with present capacity of 500,000 tons compared with only 80,000 in prewar. Our leading domestic aluminum concerns are fully integrated, with ALCOA accounting for about 50% of rolling mill capacity, and all three of the large competitors engage in broad scale fabricating activities. In the latter sphere, importation of ingots from Canada and supplies of some 350,000 tons of secondary aluminum annually help to alleviate the current shortage, but still fail to cover all needs.

Despite higher wage costs and freight rates, net earnings of the leading producers of aluminum will probably trend higher during the current year. Since 1947 proved very satisfactory for both ALCOA and Reynolds, prospects of further improvement add speculative attraction to their shares. While, as we have pointed out, the longer term outlook for this industry is bright, profit margins of the leading concerns may narrow when prices for competitive metals start to recede, as they probably will do eventually. For quite a while, though, dividends on aluminum shares should be well protected by earnings.

Demand for lead and zinc likewise continues far stronger than supply. In consequence, lead prices were lifted recently to around 19 cents per pound, compared with 17½ cents at midyear and 15 cents in April. Zinc is now quoted at 15 cents per pound against 10½ cents last January. The zinc mines have been troubled with protracted strikes this year with the result that last year's output of 625,000 tons may not be equalled in 1948. Then withdrawal of 162,000 tons of zinc into the Federal stockpile served to stimu-

late prices already pushed up by unceasing pressure from the galvanizing and brass mills. As for lead supplies, the failure to develop new ore sources has served to restrict steps to meet the current heavy demand from battery manufacturers, pigment makers, producers of cable covering, and the building industry.

During 1947 domestic production of lead totalled around 375,000 short tons, whereas current consumption is at a rate in excess of one million tons. Canada, Mexico and Australia must be looked to for supplying the deficiency, and under current conditions the tariff of about 1 cent per pound on pig lead and ¾ of a cent on ore is easily absorbed by our domestic markets. Since foreign demand normally does not absorb all foreign-produced lead not required by the United States, the price here is heavily influenced by available supplies from abroad, and for this reason is subject to wide cyclical fluctuations.

The two American companies that account for about 65% of domestic lead sales, St. Joseph Lead and American Smelting & Refining, are strong financially and have unbroken dividend records for more than a decade past. They have an operating advantage in never selling more than two months in advance, hence rather easily keep production in balance with demand. Both of these concerns are achieving earnings above normal at present, though strikes and high costs have brought a slight downtrend during 1948. The same is true of Eagle Picher, with both strikes and scant supplies of purchased metals adversely affecting sales this year. Depletion of the company's ore reserves have forced it to rely heavily upon outside sources of supply.

Other non-ferrous metals, such as tin and nickel, are produced in negligible quantities in the United States, though their consumption here is substantial. About 40% of world production of tin is taken by American buyers and the price of this metal has been pushed up to more than one dollar per pound of late, compared with about 63 cents a few years ago. International Nickel produces about 80% of the world output of nickel, so much in demand for steel alloys, and the improved earnings of this concern reflect the benefit of substantial demand and firmer prices. Manganese, another metal extensively used by makers of alloys, is mined to a modest extent by a subsidiary of Anaconda Copper in Montana, but our economy is largely dependent upon imports from Russia, Africa, Cuba and Brazil.

Now that prices for non-ferrous metals have reached a new peak for the current year, it is probable that second half year earnings of the high cost producers will improve over the first six months. Those with low costs should accomplish even better gains. This indicates a satisfactory degree of dividend stability during the intermediate term for most concerns in this group.

Another Look at the Movies

(*Continued from page* 645)

forming. The picture concerns, too, will enjoy a permanent advantage in their larger screens and the appeal of their away-from-home atmosphere in the theaters.

The glamour of the moving picture industry has always aroused

speculative activity among profit-minded investors, and the volatile characteristics of share prices in this group have been marked. Under the conditions we have discussed, it is hardly surprising that the popularity of movie shares has waned sharply in recent months. A representative group in this division was recently priced at about 45% of the 1946 high, and an accumulation of uncertainties has depressed the shares rather faster in recent months than the general market. All issues of the major concerns in the industry appear to us very well deflated, but market psychology may push them still lower, hence their appeal for the time being is limited. Undeniably the dividend stability of several has been adversely affected by the downtrend in earnings and as 1948 progresses, slim chance of improvement seems in sight.

Granted confidence in the able managements and financial resources of the leading concerns, however, shareholders in some of the better situated carefully selected companies may be justified in feeling that the worst conditions in the industry may soon be passed and that an improvement is in store. This might apply particularly to Loews, Twentieth Century-Fox, Paramount and Warner Bros.

What's Ahead for the Liquors

(*Continued from page* 641)

slim, due to high operating costs and the stiff Federal excise tax, but promotional expenses may now expand fast.

While for a time to come, the relatively few distillers who now dominate the industry may find their problems simplified with fewer competitors in the field, later on these advantages could lose their force. This potential looms up in the form of possible, indeed probable overcapacity in relation to anything approaching normal demand. The wartime expansion of Government financed plants to produce industrial alcohol swelled total distilling capacity throughout the country to around 900 million gallons annually. Since even in such a lush peacetime year for the distillers as 1946, peak demand from consumers absorbed 230 million gallons only, it can readily be envisaged that the threat of overproduction could easily materialize.

It might appear simple to close down plants to keep production within desirable limits but shutdown expenses can be a very heavy drag upon operating profits. Then, if some Government owned plants are disposed of to newcomers, that would only tend to stir up competition on a broader scale. Right now the concentration of whiskey supplies in a few hands is a stabilizing influence, for practically no outside stocks remain in the possession of smaller concerns, some of which sold a lot of aged whiskey to their big competitors last year. Within a year or so, however, the strongest units in the industry may find themselves with far more 4-year-old stock on hand than they can easily dispose of, and their capital needs to carry it may not diminish as now perhaps hoped for.

Big Working Capital Needs

Even now, the necessity of borrowing very large sums to support swollen inventories of aging whiskies has reduced the chances for more liberal dividend policies in the industry. At the beginning of the current year, for example, Schenley showed bank loans of $125 million, and during the spring Distillers-Seagrams expanded its available credit resources to $225 million. Banks consider risks based upon whiskey in bonded warehouse as prime collateral, but the time will come when these loans will have to be liquidated through sales in the normal process, so that overproduction would create substantial problems.

Former difficulties in acquiring adequate supplies of neutral spirits from grain, to blend with well-known brands of whiskies, have completely vanished now that all kinds of grain are in abundant supply. Distillers-Seagrams stuck rigidly to the use of grain spirits last year, gaining marked sales advantages by this policy. While other forms of spirits, such as those mad from cane and potatoes, have equal purity and strength, other distillers who used them in blends found to their regret that they were less readily saleable, for consumers became cautious when labels disclosed their origin as required by law.

During near term months, Schenley will have an advantage in holding the largest inventory of aged liquor, for sale either as straight whiskey or in blends, and its diversified production of rum, gin, wines and chemicals will help to swell volume. Distillers-Seagrams, though, gained sales at the expense of Schenley last year,

pushing volume up to a record high in the industry of $628 million, and through concentration solely upon blended whiskies made from grain spirits.

Brand popularity has now become the crux of competitive problems among the major distillers and as matters now stand, 10 brands of whiskey account for the bulk of total industry sales in this division. What remains an open question is whether consumers in the future will tend to buy large quantities of more profitable straight whiskey at higher prices or lean towards the more economical blends. In attempting to find the best solution, managerial policies of the various distillers will increasingly differ from now on, with success hinging upon promotional efforts partly and upon the unpredictable element of consumer preference.

Shares in the distilling group have followed the general market pattern rather closely in recent months. Hence low price-earnings ratios and high yields are now the rule, as our appended table shows. As long as no serious downturn in consumer income occurs, the leading distillers should continue to report relatively high sales and satisfactory earnings. As we have pointed out, furthermore, their road ahead will probably become increasingly smoother from the operating angle.

Generally, their shares appear reasonably priced in relation to prospective results over the intermediate term, particularly such leaders as Distillers-Seagrams and Schenley, though they are naturally vulnerable to any future decline in consumer spending power.

Waning Industrial Expansion

(*Continued from page* 622)

where expansion plans are determined by the outlook for general business conditions.

In more than one sense, the hesitation now observed is salutary in that it tends to limit the risk of overexpansion even though it may ultimately weaken one of the major props of the boom. At the present stage, the latter appears less dangerous in its overall implications than the former would be in the long run, by intensifying any future recession in business.

Market Seeking Realistic Levels

(*Continued from page* 619)

been extensive psychological preparation which will tend to mitigate the impact. But the fact remains that earnings will be sharply lower, dividends moderately lower; and that many investors will, as usual, do their selling only when these conditions materialize. In short, we can offer no assurance that the 163-165 level will not ultimately be broken. A highly cautious investment policy remains called for, with real peace distant and with inflation probably topping out.

—Monday, September 20.

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As I See It!

(*Continued from page* 617)

rebellion, while it is still possible, is bound to become more likely everywhere as Russian policies force down living standards and reshape the political habits of the Eastern European peoples. Only by taking direct control can the Kremlin make sure that rebellion will not assume unmanageable forms.

But if we appease the Soviets further, resistance to them will collapse and we shall deliver the satellites hopelessly into the Soviet hands, enabling the Kremlin to consolidate its position by taking the final step of crushing the last remnants of independence and resistance among them.

We cannot afford this to happen. Not only would it mean a major defeat for western power and prestige; our position in Europe, and the world, would be seriously undermined. The crisis then would merely enter a new and more serious stage.

There is every reason to believe that Russia will prefer not to initiate a war with us, not to pull the trigger. She will prefer to stop short of inciting us to do so, in Berlin and elsewhere. Economic chaos rather than war is her principal weapon, hence her hostility to the Marshall plan, her hostility to restore peace and economic health to a war-town world. The cold war waged by Russia is part of this overall design for chaos, for well she realizes that a cold war in the long run could bankrupt even us. Hence her play for time; hence, also, the urgent need for us to call the Soviet bluff. For the hotter the cold war waxes, the greater its burden on the free nations, the weaker their position when Russia holds the time ripe for a final showdown.

Stalin seems to have decided that the two worlds cannot live side by side. Realism points decisively to the necessity of a showdown now, whatever the price, lest the price later be unbearable. It is a hard choice for us to make, but better to face it now than in the future against poorer odds. Calling the Soviet bluff will hasten the break-up of the communist structure built by force and terror. To delay it will not strengthen our position, nor will it assure us "peace in our times."

Cumulative Index to Volume 82

Pages 1 to 52, inclusive, April 10, 1948
Pages 53 to 106, inclusive, April 24, 1948
Pages 107 to 158, inclusive, May 8, 1948
Pages 159 to 210, inclusive, May 22, 1948
Pages 211 to 262, inclusive, June 5, 1948
Pages 263 to 316, inclusive, June 19, 1948
Pages 317 to 364, inclusive, July 3, 1948
Pages 365 to 412, inclusive, July 17, 1948
Pages 413 to 460, inclusive, July 31, 1948
Pages 416 to 512, inclusive, August 14, 1948
Pages 513 to 564, inclusive, August 28, 1948
Pages 565 to 612, inclusive, September 11, 1948
Pages 613 to 664, inclusive, September 25, 1948